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Integrated annual report on results for 2016 and cumulative report on the strategic framework, 2014-2017, of the United Nations Capital Development Fund

Summary

This report presents an overview of cumulative progress achieved against the UNCDF Strategic Framework, 2014-2017, with highlights of UNCDF results in 2016.

In 2016, UNCDF largely achieved its planned results in local development finance and financial inclusion, helping at least 14 million people to access financial services and supporting over 850 local governments to enhance their capital investment programming and boost their local fiscal space. There is growing evidence of the sustained impact of UNCDF results in reducing poverty, empowering women economically and fostering overall local development. Through its work on de-risking and blended finance and its focus on tackling entrenched inequalities and exclusions, UNCDF is contributing to the achievement of the Sustainable Development Goals and other global agreements, including the Addis Ababa Action Agenda, the Paris Agreement and the New Urban Agenda.

These results have been achieved despite a decrease in regular resources by ensuring strong leverage of UNCDF investments and effective scale-up of pilots, by introducing impactful innovations in UNCDF programmes and financing instruments, and by streamlining management and operating costs. However, regular resources are the foundation of the UNCDF business model, providing the risk capital for innovation and leverage, the technical expertise to remain at the frontiers of "last mile" finance innovation and the robust country presence needed to be a strategic partner to Governments and United Nations country teams.

The Executive Board may wish to take note of the 2016 integrated results and cumulative review; welcome the steps taken to prepare the next UNCDF strategic framework; and to recommit to supporting UNCDF work, including through fully funding regular resource requirements of $25 million per year.

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Annex. Integrated results and resources matrix (available on the Executive Board web page)

I. Introduction

1. This integrated report— covering the annual progress of UNCDF for 2016 and its cumulative results against the Strategic Framework 2014-2017— was prepared in line with Executive Board decision 2016/7.

2. The review was conducted based on reported programmatic results data against the institutional results and resource matrix (IRRM) (see annex). The findings were triangulated with evaluation and audit reports; programme monitoring and progress reports; and financial and external data sources, including the Department of Economic and Social Affairs Sustainable Development Goals Indicators, MIX Market and World Bank data sets, and local development finance indicators in the targeted countries.

II. UNCDF and the changing context

A. Contextual analysis

3. Many least developed countries (LDCs) continue to make notable development progress. Ten LDCs are meeting graduation criteria, of which three are on track to graduate by 2021 and seven are meeting two criteria or the income-only criterion. At the same time, economic growth in LDCs has slowed since 2012, reaching 3.6 per cent in 2015. This is below the 7 per cent target recommended in the Istanbul Programme of Action. LDCs are still characterized by constraints such as low per capita income, low levels of human development and economic and structural vulnerabilities. Many LDCs are also affected by crises, natural disasters, climate change impacts and commodity price swings.

4. The last few years have seen the articulation of new development agendas that are shaping and reinforcing the importance of UNCDF work to de-risk investments in local governments, poor households and small and medium-sized enterprises (SMEs) in order to get finance flowing to where it is needed most. These include the Addis Ababa Action Agenda, the 2030 Agenda for Sustainable Development, the Paris Agreement on Climate Change, the midterm review of the Istanbul Programme of Action, the New Urban Agenda, and the quadrennial comprehensive policy review of operational activities for development of the United Nations system. .

5. These agendas have a strong focus on the imperative to leave no one behind. They call for tackling entrenched inequalities and exclusions and for integrated development solutions that support the achievement of multiple goals. With their emphasis on the need to mobilize resources from multiple sources and leverage their impact, these agendas are also giving impetus to UNCDF work to innovate "last mile" finance models that use public resources to catalyse additional public and private sector funding from both domestic and international actors. For each $1 spent in regular resources, UNCDF is able to leverage about $10 into local economies. This is very much in line with the General Assembly's call for the United Nations development system entities to mobilize multiple funding sources, deepen partnerships with relevant stakeholders and further explore innovative funding approaches.

6. As highlighted in the last results report, past UNCDF investments are yielding important results today. The focus now is on consolidating the lessons from those programmes and scaling up and replicating what works. UNCDF continues to push new frontiers of finance in response to demand and to evolve its models and approaches based on the lessons learned. Moreover, UNCDF continues to optimize its capital mandate: it is working to strengthen its lending capabilities through the establishment of the LDC Investment Platform and to attract blended finance to scale up initial UNCDF investments.

7. A major constraint remains the limited regular resources of UNCDF. The consistent shortfall against the $25 million annual target agreed in the Strategic Framework strains the Fund's ability to innovate. The UNCDF country presence has dropped to 30 LDCs against the 40 projected in the Strategic Framework and this number is at risk of further reduction. Regular resources remain the foundation for the UNCDF business model, providing the risk capital for innovation and leverage.

the technical expertise to remain at the frontiers of last mile finance innovation, and the robust country presence needed to be a strategic partner to Governments and United Nations country teams (UNCTs) and ensure a strategic, rather than fragmented, country engagement.

B. Highlight of results, 2014-2016

8. This section provides highlights of UNCDF cumulative results, covering the period 2014-2016 with a focus on 2016, by its two main practice areas – local development finance and financial inclusion.

9. In local development finance, UNCDF aims to be a centre of excellence and innovative funding for local government finance and local economic development finance. The Strategic Framework saw a significant evolution in the financial tools and instruments applied by UNCDF. The Fund's local development fund model continued to yield results by promoting fiscal decentralisation to get finance flowing to secondary cities, peri-urban and rural areas in LDCs so they can respond to the infrastructure and service needs of their citizens, including in post-conflict environments. A new generation of innovations – such as performance-based grants – were introduced, attracting significant follow-on funding from Governments and donors. UNCDF developed and piloted new tools for unlocking domestic private sector finance for local economic development and municipal finance. These tools demonstrate how well-targeted official development assistance (ODA) can build bankable pipelines of transformational projects that can attract commercial financing from domestic banks and pension funds in LDCs. This approach is also showing impressive results in growing SMEs and empowering communities and local governments to build priority infrastructure. Furthermore, in response to changes in the global development landscape, UNCDF introduced fiscal approaches for local governments to adapt to new development challenges. This included supporting their direct access to global climate funds for climate adaptation, and helping secondary cities access more sustainable sources of finance through public-private partnerships and municipal bonds.

10. In financial inclusion, UNCDF concentrated on building inclusive financial systems that reach un-banked populations and micro-SMEs, with a focus on women and youth. UNCDF adopted a two-fold strategy: supporting market development and enabling environments via data-driven diagnostics and ecosystem-building approaches; and making targeted investments that supported a range of innovative and scalable models to reach unbanked women and men. UNCDF partnered with more than 130 institutions, including commercial and cooperative banks, mobile money and remittance operators and insurance companies. By building stronger market environments, UNCDF enabled a wider range of innovative models to be tested and scaled up. For example, the Making Access Possible (MAP) programme is generating data that "reveals markets" and helps the private sector make decisions on financial service innovations. Ecosystem approaches are making it possible for innovative digital financial services (DFS) models to be tested and scaled up, extending the reach of financial inclusion. UNCDF has also introduced challenge funds and financial product innovations tailored to the needs of hard-to-reach populations, especially women and youth, increasing their access to financial services and empowering their productive capacities.

Results against Outcome 1: Financing increased for basic services and inclusive growth and local economic development

Local development finance

11. National Governments cannot undergo local economic transformation and cannot meet the Sustainable Development Goals without utilizing the comparative advantage of local governments. When decisions about resources are made locally and those resources are invested locally, there is potential for an accelerator effect for inclusive growth. UNCDF invested $72.7 million to enhance local development finance in over 20 countries since 2014. It directly supported 4,263 infrastructure investments through local government investment programmes during the Strategic Framework period. These investments have demonstrated local capacity and stimulated policy reforms that accelerated local basic service provision and local economic development.

Figure 1. UNCDF-supported public local infrastructure investments by sector in 2016

12. UNCDF measured the performance of its targeted local governments using selected indicators from the Public Expenditure and Financial Accountability (PEFA) framework, modified for the subnational level. Based on a sample assessment using the modified PEFA standards, 31 per cent of the sampled local authorities increased their performance in areas of transparency and accountability, while 69 per cent maintained their performance levels. This exceeds the target of 75 per cent of the sampled local governments increasing or maintaining their performance levels.

13. In support of public-private partnerships in local infrastructure development, UNCDF invested $632,000 in seed capital in 2016 to prepare 11 revenue-generating catalytic project investments to reach an investment-ready[1] stage. These projects will be presented to local banks to unlock some $28 million for local development. As in all UNCDF activities, the project pipeline has a piloting and demonstration effect and is designed to be scaled up and replicated; this initiative began in a few regions in the United Republic of Tanzania, became a national platform for local investment and is now being rolled out in five other countries. Each investment is chosen for its catalytic effect on local economic development and its impact on key themes such as women's economic empowerment, climate adaptation, clean energy and food security.

14. During 2016, UNCDF commissioned a study on the impact of its local development finance initiatives. Preliminary results indicate significant increases in local fiscal space, resulting in follow-on investments in local infrastructure and services. The study found a scale-up impact of up to 40 times the original UNCDF investment. For example, over the last 18 years in Uganda, $619.5 million was channelled by the Government and the World Bank into local capital investments to build on and expand a joint UNCDF-UNDP pilot programme that invested $14 million (1999-2001). In the United Republic of Tanzania, a decentralization development grant programme piloted by UNCDF in six local districts with a budget of $4 million (2000-2003) was later scaled up by the World Bank, the Government and other development partners to the tune of $686 million (2004-2016).

Table 1. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Output 1.2.1 Total number of district-level local governments supported	1,000	854	+
Output 1.2.2 Total volume of UNCDF investments made to local governments	$15,000,000	$10,200,874	+/-
Output 1.2.3 Additional public and private investments leveraged by UNCDF programme contribution	10:1	11.7:1	+
Output 1.2.4 Percentage of local governments supported by UNCDF that report maintained or increased capacity on allocation of resources based on PEFA standards	75% of sample	100% (31% increased; 69% maintained)	+

[1] Investment-ready stage. UNCDF Local Finance Initiative technical team provided targeted technical assistance to local development investment projects and developers. Completed projects are now in 'investment-ready' stage which means that the technical assistance (project development cycle) for UNCDF has been completed (appraisal, data collection, due diligence, analysis, project structuring, financial analysis, governance and compliance, final investment documents, facilitated submissions to banks/partners and subsequent follows). The technical assistance provide by LFI de-risks these investments so that they become more attractive for investment by the private sector capital markets.

Output 1.2.5 Number of UNCDF-supported local investments in infrastructure completed, disaggregated by type of infrastructure and financing modality	1,587	967	+/-

* Performance assessment scores: Achieved (+ or Green) = 75-100%, Partially achieved (+/- or Yellow) = 50-70%, Not satisfactory (- or Red) = < 50%

Financial inclusion

15. Access to financial services is recognized as a target in seven of the Sustainable Development Goals. There is growing empirical evidence on the important role of financial inclusion in poverty reduction, women's economic empowerment and inclusive growth.[2] Recognizing the impact of financial inclusion for development, in this Strategic Framework period UNCDF invested $106.8 million in financial service providers (FSPs) to reach over 14 million saving clients with a range of financial products and expand the frontiers of financial inclusion. In 2016, UNCDF supported 134 FSPs with seed investments and technical assistance to extend financial services to new groups.

16. In addition to UNCDF regular resources, development partners provided $97 million in funding for UNCDF-designed programmes since 2014, or 10 times the UNCDF regular resource investments. This significantly boosted the Fund's ability to produce strong results.

17. Within the context of their total deposits of $3 billion, UNCDF-supported FSPs achieved a net increase in deposits of $1 billion mobilized since 2013, demonstrating the potential for well-targeted ODA to catalyse domestic resources for development.

18. In adapting to the ubiquity of mobile phones and digital applications during the Strategic Framework period, DFS innovation has become a driver across most UNCDF interventions. UNCDF created innovation hubs that engaged large mobile network operators or commercial banks to design and test client-centric product innovations and alternative delivery channels to reach unbanked women. DFS also increased access for young people; increased smallholder farmer productivity by helping them access the inputs they need; and supported innovative business models for women that increased their economic participation. UNCDF assisted Governments in digitizing bulk payments, such as welfare grants. UNCDF also supported digital applications to solve real-world problems, such as through supporting businesses that use pay-as-you-go systems to expand access to clean and renewable energy. Based on these lessons, UNCDF is now exploring how DFS can be expanded into a wider range of digital innovations and enable access to essential goods and services.

19. In August 2016, with UNCDF support, MTN Uganda and the Commercial Bank of Africa launched MoKash,[3] the first mobile-based microsaving and microlending service of its kind in Uganda. The market responded very positively, with 83,000 customers joining within the first 48 hours, 650,000 after one month and over 1 million in three months. Coffee farmers involved in the project used the service as a tool to smooth consumption, buy fertilizer, pay school fees and ensure payments to labourers employed during the coffee seasons.

20. Access to financial services allows poor people to solve real problems. The Pacific Financial Inclusion Programme (PFIP), jointly administered by UNCDF and UNDP, helped FSPs to increase usage of financial products, especially microinsurance, across the Pacific, reaching some 1.1 million clients. The usage rate (the number of active product users in a 90-day period) showed a clear increase from 7.5 per cent usage before the Fund's interventions to 59 per cent usage afterward. PFIP also set up regional innovation labs to drive second-generation deployments in DFS for underbanked customers, with the first-phase labs underway in Fiji and Solomon Islands. The labs focus on improving the customer experience, value proposition and adoption of financial services and target priority groups, particularly women.

[2] An article published in *Science* (2016) by Suri and Jack reported results of a long-run impact study on a mobile money service in Kenya, M-PESA. The study found "mobile money has lifted as many as 194,000 households – 2% of the Kenyan population – out of poverty, and has been effective in improving the economic lives of poor women and of members of female-headed households."

[3] http://mm4p.uncdf.org/three-months-down-road-uganda

21. MicroLead, a global initiative that challenges FSPs to develop, pilot and scale deposit services for low-income rural populations, particularly women, reached over 805,000 new customers, roughly 61 per cent of whom are women. MicroLead supported FSPs to reach previously untapped rural markets with demand-driven, responsibly-priced products offered via alternative delivery channels such as rural agents, mobile phones, point-of-sale devices and informal community groups. The products were offered together with financial education for customers. In 2016, DFS were offered by most UNCDF FSP partners. For example, NBS Bank Malawi developed a digital savings account called Pafupi Savings in 2014 with UNCDF support to remove barriers to formal savings for low-income people in rural areas, especially women, which continued to be scaled up in 2015-2016. As of December 2016, Pafupi had reached 76,000 depositors. Pafupi allowed accounts to be opened in under 10 minutes at the client's doorstep with no paperwork required, and it enabled women to bank conveniently in their neighbourhoods. This is having a market demonstration and creation affect, not only within NBS, which has over 350,000 retail depositors, but also with customers demanding that other banks offer similar convenience.

Table 2. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 1.a.1. Net change in number of voluntary savers	6,400,000*	5,893,826*	+
Outcome 1.b. Net change in US$ value of savings portfolio of UNCDF-supported FSPs	$585,000,000*	$1,090,906,583*	+
Outcome 1.c. Net change in US$ value of loan portfolio of UNCDF-supported FSPs	$585,000,000*	$465,911,122*	+
Output 1.1.1 Total number of FSPs supported	100	134	+
Output 1.1.4 Percentage of FSPs that have audited financial statements	90%	81%	+
Output 1.1.7 Percentage of FSPs that endorse SMART Campaign Client Protection Principles	90%	67%	+/-

* Marked for cumulative plans and results covering full Strategic Framework period

Results against Outcome 2: Financing mechanisms established to increase resilience to economic and environmental shocks

Local development finance

22. Local governments are on the front lines of responding to climate risks, and securing finance is essential for building local resilience to a range of shocks. UNCDF contributed to the implementation of the Rio Conventions on climate change and on desertification by developing mechanisms that enable LDCs to access resources for local governments and local economies to strengthen their resilience. The 2015 Paris Agreement stressed the role of subnational governments in strengthening resilience to climate change. Yet most climate finance is centrally allocated or managed. To help local governments take necessary climate action, UNCDF has designed the Local Climate Adaptive Living Facility (LoCAL). LoCAL works by channelling performance-based climate-resilient grants through intergovernmental fiscal transfer systems for local public and private climate-resilient investments.

23. In 2016, LoCAL delivered some $3 million, working with 64 local governments in 12 countries, to introduce and scale up the climate-resilient grant system. Over 130 investments were completed in a range of sectors, from water and sanitation to agriculture, disaster prevention, transport and storage. In 2016, an additional $9.75 million was mobilized by LoCAL to scale up its efforts in Bangladesh, Cambodia and Tuvalu.

24. The Governments of Bangladesh, Benin and Bhutan each also committed domestic financial resources for upscaling the LoCAL facility. In Bhutan, LoCAL is operating in half of the local governments with focused investments in water management. In Benin, the national fiscal transfer system scaled the use of the LoCAL method by injecting additional funds twice the size of the original investment and expanding it to three other local governments. In Bangladesh, UNCDF is exploring options for adapting the LoCAL system to help build climate change resilience in urban areas.

25. In Ghana, LoCAL invested in reforestation and trained local council members on early warning systems and citizens on bush fire prevention. UNCDF has carried out scoping missions to expand LoCAL to Lesotho and Uganda in 2017.

26. In 2016, UNCDF worked with the Food and Agricultural Organization of the United Nations (FAO), the Organisation for Economic Co-Operation and Development and the secretariat of the United Nations Convention to Combat Desertification to shift the paradigm on food security and nutrition policies towards a territorial approach embracing multisectoral, bottom-up and location-specific interventions. The UNCDF Finance for Food programme aims to develop national platforms for investment in local food systems building on local investment finance mechanisms already established through past UNCDF interventions.

27. In Benin, UNCDF supported the Government to introduce a revised budget code for food security to record and improve the management of relevant funds flowing to this sector. In Mozambique, UNCDF worked on consolidating a food security analysis into the LoCAL planning process to address the risk of extreme weather events increasing community food insecurity. In Mali, UNCDF supported investments in essential local community infrastructure, including a dam in Sandare, which extended arable land by 48 hectares, and a cereal bank in Korera-Kore that contributed to the stability of food supply and prices in the local communities. In Niger, UNCDF implemented a cash-for-work approach to combat erosion of degraded land and regenerate ground water levels over the long-term.

Table 3. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Output 2.2.1 Volume of funds channelled through new financing systems piloted by local governments with UNCDF support targeting vulnerability, exclusion, and shocks disaggregated by types of thematic areas	$4,500,000	$3,357,262	+
Output 2.2.2 Percentage of local governments having integrated the resilience dimension in their planning and budgeting processes	80% of sample	68%	+

Financial inclusion

28. Financial inclusion helps promote household resilience by allowing families to cope with shocks, smooth consumption when needed and plan ahead. To this end, UNCDF has supported the piloting of 98 new products since 2014, of which 82 are being scaled up. Some 4.7 million people have been reached through these new financial products since 2014; of the new clients, 54 per cent were women.

29. YouthStart, a programme to increase access to financial services for low-income youth in sub-Saharan Africa, was successful in institutionalizing youth products in 9 of 10 partner FSPs, and they have continued to scale their outreach. In 2016 alone, YouthStart's FSP partners provided access to savings accounts to almost 730,000 young people, of whom 44 per cent are young women; trained over 700,000 youth in financial education; and provided loans to over 125,000 young entrepreneurs, 54 per cent of them women. These young clients have accumulated over $20 million in savings. In an in-depth behavioural study,[4] researchers found that YouthStart had positive behavioural impacts; young people who participated in the programme had more confidence in their future, which may impact their decisions about risky behaviours, migration and radicalization.

30. CleanStart, which helps low-income consumers transition to cleaner and more efficient energy through microfinance, set up a Renewable Energy Challenge Fund (RECF). RECF builds on earlier challenge investments of $1.2 million in four early-stage consumer financing ideas being tested in Uganda. Two of those partners, D.light and Biolite, have each raised working capital of over $15 million from investors, with two others, Brighterlite and Kamworks, raising additional funding from other types of funders. Through these initiatives, UNCDF has paved the way for start-ups with

[4] http://uncdf.org/sites/default/files/Documents/youthstart-behavioural-report-lr.pdf

social benefits for previously unreachable segments of the population, to gain access to the commercial finance for scale up in LDCs.

31. In Asia, the UNCDF Shaping Inclusive Finance Transformation (SHIFT) and CleanStart programmes launched a challenge fund focused on fostering innovative business models for women's financial inclusion, with the goal of reaching over 1 million women in Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam. To date, some 630,000 low-income individuals have accessed financial services through UNCDF investments in nine women-oriented business models. These investments have leveraged $3.5 million from the private sector and donor funds. The SHIFT programme has also supported women's economic participation by collecting and developing sex-disaggregated dashboards and toolkits for regulators and providing FSPs with training on big data that incorporated a gender focus.

Table 4. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 2.a. Number of new financial products to improve client security, resilience against shocks scaled up by UNCDF supported FSPs	38	30	+
Outcome 2.b. Number of clients served by these new scaled products	1,600,000	2,570,556	+
Output 2.1.1 Number of new or improved financial products piloted with support of UNCDF	38	32	+

Results against Outcome 3: Policy environment that is conductive to sustainable financing for sustainable development

Local development finance

32. The importance of local governments in implementing global agreements, responding to crises and empowering women is increasingly being recognized. In 2016, UNCDF intervened in three major global policy debates. First, with FAO, UNCDF organized a conference series and launched publications on the territorial approach to food security. Second, UNCDF deepened its relationship with the Green Climate Fund (GCF), participated in the twenty-second Conference of the Parties to the United Nations Framework Convention on Climate Change in Marrakech, and agreed to work with LDCs and the GCF secretariat to support direct access to climate finance for local governments using LoCAL facilities. Third, UNCDF participated in the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito and contributed to the drafting of the New Urban Agenda, with a special focus on municipal finance. As part of this process, UNCDF and the United Nations Department of Economic and Social Affairs organized two expert group meetings on municipal finance, in Dar Es Salaam and Bangkok, to capture best practices from development partners and LDCs.

33. UNCDF also made important contributions to the midterm review of the Istanbul Programme of Action, contributing to the outcome document's strong focus on the financing needs of LDCs; arranging a number of side events leading up to and at the high-level midterm review meeting at Antalya focusing on last-mile finance; and preparing a number of quality knowledge products, including a publication with UNDP examining case studies and drawing lessons on what it will take to reach the last mile in LDCs.[5]

34. In South-East Asia, UNCDF developed and extended strategic partnerships with the Association of Southeast Asian Nations secretariat and with the Greater Mekong Subregion Programme, managed by the Asian Development Bank, with a focus on supporting the border regions.

35. At the country level, UNCDF contributed to local financing policies, legislation and regulations. Under LoCAL in 2016, UNCDF supported the adoption of action plans and planning guidelines mainstreaming climate change adaptation in Cambodia and Niger at the subnational

[5] 'Getting to the last mile in LDCs' (UNDP/UNCDF, 2016) http://www.uncdf.org/sites/default/files/Documents/getting-to-the-last-mile-nov-2016.pdf

level. In Mali, the Government drafted its first national policy for food security in 2016, taking into account the territorial approach tested by UNCDF. In Bangladesh, UNCDF prepared the foundation for municipalities to tap domestic capital by preparing a non-grant financing framework and municipal credit rating methodology. Ten municipalities have participated in preparatory activities to begin piloting steps to access new forms of municipal finance, with UNCDF support.

36. In Lesotho, the national decentralization policy was developed based on the experience of the joint UNCDF and UNDP Deepening Decentralization Programme that tested intergovernmental fiscal transfers to local governments. Positive results from this experience led line ministries to replicate the mechanism by transferring additional responsibilities to local governments, together with a capacity-building grant to ensure effective delivery on their mandates.

37. UNCDF also supported local governments to reconnect citizens and the State and to rebuild fragile States through a bottom-up process. In Guinea, UNCDF contributed to strengthening economic security at the border regions, especially in areas where the Ebola epidemic had a dramatic impact on local economies, with a focus on enhancing women's economic participation.

38. In Burundi, UNCDF introduced a food security programme that aims to mitigate social tensions by bringing various actors together to decide on their needs and prioritize community investments.

39. In Somalia, UNCDF worked through a joint United Nations programme to support the rebuilding of the State by designing the basic financial architecture in subnational government. In 2016, a significant milestone was achieved with the entry into force of the Bulk Transfer System for intergovernmental fiscal transfers that enabled the Ministry of Finance to supervise and monitor fiscal transfers. UNCDF also supported the establishment of a government budget conference to support better planning and budgeting. This is an example of the UNCDF approach to peacebuilding through local government finance.

Table 5. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 3. b. Number of national strategies, action plans, policy or regulatory changes for local development finance adopted by host government	10*	16*	+
Output 3.2.1 Number of local development diagnostics completed	37	39	+
Output 3.2.2 Number of local development finance national strategies, action plans or policy/regulatory changes developed with UNCDF support	67*	80*	+
Output 3.2.3 Number of people trained to strengthen capacities of national and local actors	25,000	45,741	+

* Marked for cumulative plans and results covering full period of the Strategic Framework, 2014-2017.

Financial inclusion

40. At the global level, UNCDF provided support to the Secretary-General's Special Advocate for Inclusive Finance for Development – the Queen of the Netherlands – through her Reference Group and the Group of Friends of Financial Inclusion. UNCDF work in South-South partnerships and strengthening FSPs, featuring MicroLead's results, was included in two key United Nations publications: the annual United Nations Conference on Trade and Development (UNCTAD) report on LDCs[6] and the United Nations Office for South-South Cooperation (UNOSSC) publication on good practices in South-South and triangular cooperation for the Sustainable Development Goals.[7]

41. At the country level, UNCDF facilitates the adoption of road maps, strategies and action plans on financial inclusion by host Governments. The UNCDF MAP programme offers a powerful platform to encourage private sector investments in expanding financial inclusion, and is becoming

[6] *The Least Developed Countries Report 2016: The path to graduation and beyond-Making the most of the process*, (UNCTAD, 2016) featuring the UNCDF MicroLead case: http://unctad.org/en/PublicationsLibrary/ldc2016_en.pdf

[7] *Good Practices in South-South and Triangular Cooperation for Sustainable Development*, (UNOSSC, 2016), featuring MicroLead case (page 79-80).

a strong engine for South-South cooperation, fostering peer-to-peer learning among countries. In 2016, UNCDF supported five national-level diagnostics, leading to 13 national-level financial inclusion road maps. UNCDF continues to support 10 other countries in similar processes. In addition to MAP, UNCDF supported the development of 27 ecosystem diagnostics on various issue areas, including digital finance and youth.

42. The UNCDF Mobile Money for the Poor programme engaged with policymakers to establish enabling environments for scale-up of DFS. In Zambia, UNCDF led the dialogue with regulators and private sector partners to allow high-volume payment transfers using mobile wallets. In Nepal, UNCDF supported the central bank to work closely with the private sector to design a compliance reporting tool that would enable real-time collection of financial service infrastructures, resulting in a publicly accessible database of FSP locations. In Senegal, UNCDF worked with the statistics bureau to collect data on retail payment flows, supporting evidence-based decisions and pushing for digital payments. These country experiences highlight the importance of public-private cooperation to adapt rules and regulations to suit the quickly evolving market environment. They also emphasize the importance of investing in better market data and information to enable evidence-based policy- and decision-making in financial services.

43. In Myanmar, UNCDF provided technical support and capacity building to the Financial Regulation Department and the Myanmar Microfinance Association. As a result of this work, the Financial Regulation Department revised its microfinance regulations, allowing greater ease in borrowing for microfinance institutions (MFIs) and enabling the strongest MFIs to increase their voluntary savings.

44. In Sierra Leone, UNCDF provided technical support to the central bank to launch the Sierra Leone National Strategy for Financial Inclusion, building on UNCDF support to digitalize payments for emergency response workers during the Ebola crisis.

45. The advocacy of the Better Than Cash Alliance (BTCA) has led to growing international recognition of the importance of digitizing payments. BTCA, for which UNCDF serves as secretariat, has secured the membership of 25 Governments, 21 development organizations and three companies, and this number continues to grow. BTCA has advocated the inclusion of digitizing payments in major policymaking forums, including the Global Partnership for Financial Inclusion and the World Humanitarian Summit. BTCA also contributed to the development in member countries of digital payment ecosystems that promote the sound development of payment infrastructure, driving the shift to digital and benefiting individuals, businesses and Governments.

Table 6. Progress against selective integrated results and resources matrix indicators

Indicators	Plan (2016)	Actual (2016)	Score*
Outcome 3.a Number of national inclusive finance road maps, action plans, national strategies or policy changes adopted by host government.	5	10	+
Output 3.1.1 Number of diagnostics on financial inclusion completed	9	33	+
Output 3.1.2 Number of commitments to BTCA to transition cash to electronic payments	35*	55*	+
Output 3.1.3 Number of capacity building activities completed to strengthen the capacity of financial sector regulators and supervisors, especially to safeguard poor people's savings	28	43	+
Output 3.1.4 Number of knowledge products that document UNCDF learning from programmes	33	103	+

* Marked for cumulative plans and results covering full period of the Strategic Framework, 2014-2017

C. Understanding performance against the Strategic Framework

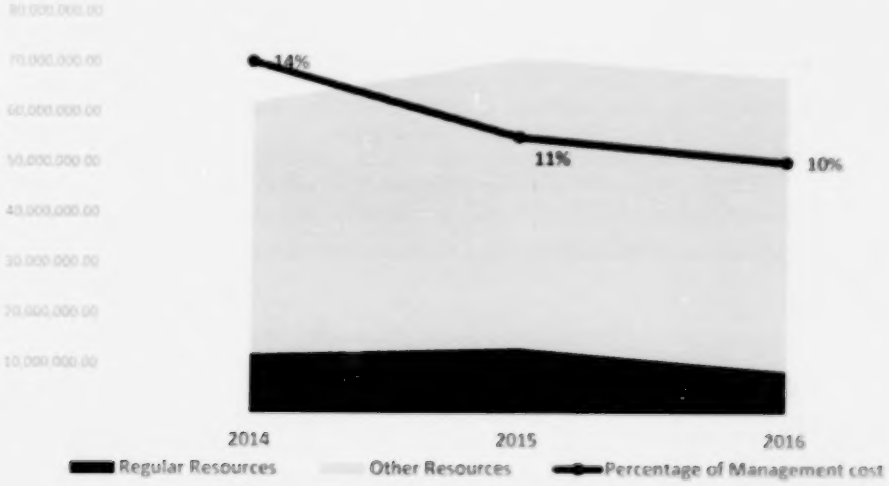
46. This section provides further analysis of results and lessons learned based on the IRRM (annex) and additional evidence provided by independent evaluations, consultancies and other internal and external reports.

47. According to the IRRM, 26 of the 35 outcome and output indicators with relevant data points in 2016 are considered to be on track[9] to reach the cumulative target for the Strategic Framework period. Of these 26, 16 have already exceeded the target. The indicators with lagging progress are mainly those[10] directly related to UNCDF levels of investments and grants, or indicators[11] that overestimated the targets in anticipation of a full resource mobilization meeting the annual regular resources envelope of $25 million.

48. Despite the decrease in available resources, especially regular resources, between 2014 and 2016 UNCDF has been able to deliver on the key outcomes of the Strategic Framework for a number of reasons. It made significant progress in mobilizing other (non-core) resources from private sector and non-governmental partners, as evident in the 249 per cent overachievement against the mobilization target for the full Strategic Framework period.[11] In addition, UNCDF continues to leverage significant amounts of additional public and private resources to consolidate, replicate and scale up what works, meaning that in many cases results have been achieved because of the strong demonstration effects, ecosystems development and increasingly, market development approaches provided by UNCDF interventions.

49. Moreover, UNCDF has been very nimble in utilizing global programmes to maintain country presence and technical expertise and build synergies among multiple projects and partner organizations. It also streamlined its management and operation structures by clustering support functions. This restructuring of resources is evident in the gradual decrease in the Fund's management costs ratio, from 14 per cent in 2014 to 10 per cent in 2016 during a period of a decrease in regular resources of 37 per cent.

Figure 2. UNCDF expenditures and percentage of management costs, 2014-2016



50. At the same time, the decrease in regular resources poses significant risks. It has resulted in the closure of 10 country programmes in local development finance and six country programmes in financial inclusion since 2014. Overall, the UNCDF country presence in LDCs has decreased from 32 countries in 2014 to 30 countries in 2016, and is at risk of declining further. In some cases, the UNCDF presence is limited to project staff, sometimes outside the capital, making it difficult to engage strategically with Governments, UNCTs and other development partners on wider

[9] Defined as the cumulative implementation rate being on or exceeding 75 per cent as 2016 is the third year of the four-year Strategic Framework (2014-2017).

[10] Indicators 1.2.2 and 2.1.1.

[11] Indicators 2.a, 2.2.2, 3.1.4.a, 3.2.1.a, and 3.2.4.

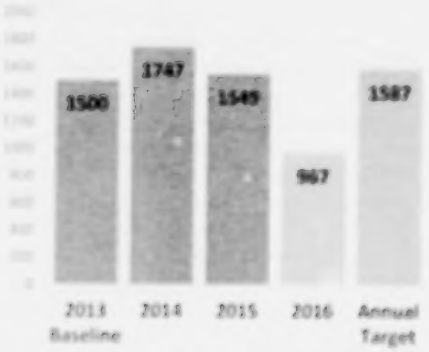
[11] UNCDF mobilized a total of $49,727,342 since 2014 against the Strategic Framework target of $20 million. See institutional effectiveness indicator 1.2.3 in the IRRM (annex 1).

development priorities. Overall, the UNCDF country presence falls short of the Strategic Framework's goal of 40 LDCs, and this presence is increasingly dictated by the priorities of donors of other resources.

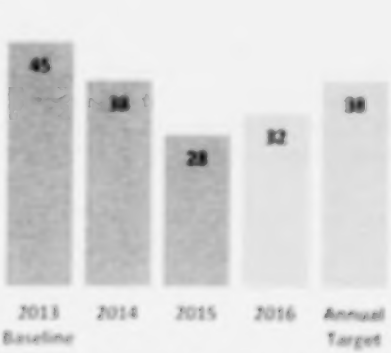
51. The IRRM also clearly indicates that outputs reliant on flexible regular resources—such as those to test and pilot innovations, deploy capital grants to de-risk the local economic space and expand the frontier of where finance flows—have been severely affected by the decrease in resources. For instance, the number of UNCDF-supported investments in local infrastructure has dropped 44.6 per cent, from 1,747 in 2014 to 967 in 2016. The number of new and improved financial products piloted with UNCDF support has also decreased, from 38 in 2014 to 32 in 2016. Both outputs are unlikely to reach the cumulative targets set for the Strategic Framework period under the current outlook for regular resources.

Figure 3. UNCDF IRRM indicators affected by decrease in resources

1.2.5. Number of UNCDF-supported local investments



2.1.1 Number of new or improved financial products piloted in infrastructure completed



52. During the 2016 midterm review, UNCDF introduced new indicators to strengthen monitoring of its gender-related results in the IRRM. An analysis of the gender indicators combined with assessments from the United Nations System-Wide Action Plan on Gender Equality and the Empowerment of Women (UN-SWAP) and other programme reports demonstrate the Fund's improved performance to promote gender equality and women's empowerment. Sex-disaggregated data on UNCDF beneficiaries and clients in 2016 show that over 45 per cent of the beneficiaries have been women, contributing to existing efforts to reduce gender gaps in banking and economic participation in LDCs. Furthermore, gender-sensitivity and awareness have been mainstreamed in UNCDF policy and knowledge creation efforts, demonstrated by the fact that 89 per cent of UNCDF-supported financial inclusion strategies and policies adopted by host Governments have incorporated gender considerations.

Figure 4. Selected UNCDF IRRM sex-disaggregated indicators

Net change in number of customers of UNCDF-supported FSPs disaggregated by sex in 2016

Number of beneficiaries of UNCDF-supported local infrastructure projects disaggregated by sex in 2016

Number of gender-sensitive national inclusive finance road maps, plans, strategies, policy change adopted by host Governments

53. Women's economic empowerment is recognized as a major pillar of several UNCDF programmes, including SHIFT and CleanStart, where over 63 and 80 per cent respectively of their supported customer base have been women. Additionally, UNCDF, together with UNDP and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women),

launched a new programme on women's economic empowerment in 2016, Inclusive and Equitable Local Development, focused on removing the structural barriers that prevent women from entering the labour market by designing and implementing gender-responsive public and private investments. The programme will be piloted in Bangladesh, Uganda and the United Republic of Tanzania in 2017. UNCDF also secured a new planning grant to develop a programme addressing access and agency issues faced by women in the uptake of financial services.

Select lessons and findings from implementation of the Strategic Framework to date

54. UNCDF continues to draw on its evaluations and programme reviews to identify valuable lessons and recommendations to help shape future programme interventions.

55. A midterm evaluation of the Making Access to Finance Possible for Poor People (MAFIPP) programme in the Lao People's Democratic Republic found that the project had effectively built capacity across all levels of a relatively nascent inclusive finance industry, leading to "substantial growth in the number of savers and borrowers" from four partner FSPs; the "transformation of an informal working group into a registered and recognised Microfinance Association"; and the "creation from scratch" of an initial regulatory framework for DFS in the country".[12] The evaluation recommended that the project anchor itself more firmly into the newly-developed country strategy for financial access, including stronger links with the UNCDF MAP programme; increase its support to financial education; and work closely with the Microfinance Association as a channel for dissemination of knowledge and good practices in inclusive finance. UNCDF will be adopting these recommendations in the country and more broadly is actively working to ensure better linkages between its different programmes.

56. UNCDF also conducted a final evaluation of a local economic development programme in Niger. It reported generally good results in supporting local governments in the Maradi region to better allocate and manage local public investment funds. A total of 91 investments worth $1.4 million supported the construction and rehabilitation of small-scale infrastructure such as agricultural storage facilities, cattle markets and abattoirs, as well as village wells and local health facilities. This, together with the deployment of an inventory credit ("warrantage") instrument, enabled FSPs to extend credit at the time of harvest, particularly to populations that were judged to be more vulnerable, including women, allowing farmers to invest in income-generating activities. Going forward, the evaluation recommended that UNCDF work more strategically with other partners active in the sector including government agencies to ensure that support is continued once projects come to an end. It also recommended that UNCDF improve the quality of collaboration between its two specialized practices in joint projects of this type, as well as revisit the process of project design and monitoring and evaluation, with a view to better measuring and documenting development results.

57. In addition to the evaluation findings, based on an internal review UNCDF has identified the following key lessons from implementation of the current Strategic Framework. First, the UNCDF focus on "last mile finance" and its risk appetite to work where others are not present, remains critical to helping LDCs use blended financial models effectively to address exclusions while they pursue the Sustainable Development Goals and graduation. UNCDF work fills a significant gap in the development finance landscape by concretely demonstrating how to shift the dynamic of local resource flows in LDCs. Without sufficient finance in the last mile, poor populations, SMEs and local governments in LDCs are at great risk of being left behind.

58. Second, UNCDF experience shows that well-designed financial tools and instruments can drive innovation and development of new sustainable finance models that work for the poor. Fiscal transfers, municipal finance and structured project finance helped localities attract investments to address infrastructure needs in the local economies. Use of challenge funds, that is, putting out calls for the best ideas in the private sector to address last mile inclusion challenges, drew private actors into new markets and incentivized them to address the needs of poor communities they would not ordinarily serve. This is leading to shifts in the way financial services providers view the viability of serving poor clients. New services are creating more resilient and financially dynamic households,

[12] Conclusions and recommendations, MAFIPP evaluation, page 90

SMEs and value chain actors. UNCDF is connecting women, youth and small holder farmers to financial services they never had access to, expanding access and usage further into previously excluded areas. New digital finance models such as pay-as-you-go models are helping poor people tap into essential services, such as clean household electricity. Based on these lessons, UNCDF is now exploring how these innovations, especially in DFS, can be expanded to other essential goods and services.

59. Third, UNCDF has continued to evolve its tools and approaches to respond to the changing development landscape and based on lessons learned. For example, UNCDF is increasingly supporting saving-led financial inclusion and gender-sensitive infrastructure investments because evidence shows these are important avenues for women to be able to exercise economic and financial agency in their homes and communities. UNCDF supports collection of data and development of diagnostics because this evidence helps reveal markets to economic actors and investors and drives policy change. UNCDF has learned that there is no single "right" way when it comes to DFS; the right enabling environment is key. UNCDF has also learned that empowering local authorities with discretionary budget allocations in crisis situations can help reinforce the legitimacy of the State, especially in rural and remote areas. UNCDF helps local authorities access diverse funding sources because they face growing pressures to respond to the needs of citizens as the world urbanizes and populations grow.

60. Finally, the UNCDF maturity model–innovate, consolidate/replicate and scale up–helps UNCDF punch far above its weight through the demonstration effect and leverage it generates. This is why ensuring sustainability and leverage continues to be a driving objective in the UNCDF business model, and why increasing regular resources remains so important going forward.

61. UNCDF is incorporating these lessons into the design of its new programmatic approaches, as well as its new strategic framework.

D. Analysis of institutional effectiveness

62. Among the 30 IRRM indicators that capture UNCDF institutional effectiveness, 25 are "on track" or "above track". UNCDF has maintained high levels of institutional effectiveness in the areas of evaluations, communications, policy, and partnerships, while significantly improving its performance in audits and gender mainstreaming. UNCDF made strong improvements in its compliance with the UN-SWAP, from 40 per cent in 2014 to 73 per cent in 2016. As noted, UNCDF continues to have difficulties in meeting its resource mobilization targets, especially for regular resources.

63. UNCDF has conducted a resource scenario planning exercise for 2018 to estimate the impact on capacities and operations under a constrained (10 per cent decrease in regular resources), status quo (no change in regular resources) and optimistic (10 per cent increase in regular resources) revenue outlook. Under a constrained scenario, it is estimated that the UNCDF presence in LDCs will decrease further from the current 30 to 25 countries or fewer. A status quo scenario in regular resources would also lead to some cuts in country presence due to natural inflation rate considerations in costs, while an optimistic outlook will reverse this trend.

64. In addition to its impact on LDC presence, a constrained resource outlook will significantly restrict the Fund's ability to remain at the frontiers of last mile finance innovation, and to be a strategic partner to Governments and UNCTs. Regular resources are the cornerstone of the UNCDF business model, providing the risk capital for innovation and leverage and the technical expertise to drive change. The current resource scenario exercise covered the period up to 2018 under a "business as usual" assumption, but a more detailed analysis will be conducted in line with the development of the new strategic framework, 2018-2021.

65. At the same time, UNCDF continues to work on diversifying its portfolio and finance instruments to find alternative solutions to cope with the reduction in regular resources and ensure lasting impact in LDCs. UNCDF has started to deepen its partnership with traditional regular resources donor countries while attracting new donors to regular resources from both traditional and non-traditional donor groups; for example, UNCDF is actively working to increase the number of LDCs among its donors to regular resources.

66. Furthermore, UNCDF has launched and is working to operationalize an LDC Investment Platform. The platform will provide through grants, reimbursable grants, loans and guarantees–seed funding to de-risk domestic and foreign investor participation in local initiatives that are below the radar of institutional investors. This platform will allow UNCDF to apply the optimal funding instrument for each business need, and to replicate and leverage in domestic and international investments. As part of this work, UNCDF is strengthening its ability to issue and manage loans, where loans are the most appropriate tool to create the market incentives that leverage other resources and to help grow the local private sector. In 2016, UNCDF also launched the Last Mile Finance Trust Fund, a flexible funding vehicle to allocate resources through thematic windows highly relevant to LDC development opportunities and challenges.

67. UNCDF continued to support an active evaluation function in 2016. Its Evaluation Unit completed two external midterm and final project evaluations, summarized above. UNCDF also began three other midterm, multi-country programme evaluations: for the global Local Finance Initiative; for the global CleanStart programme; and for LoCAL working in 12 LDCs. The findings from these evaluations will provide important inputs into the new Strategic Framework.

68. UNCDF also made considerable progress in implementing both internal and external audit recommendations. Implementation of all recommendations is in advanced stages. All 10 internal audit recommendations, along with 9 of 10 (2014) and 2 of 7 (2015) external audit recommendations, have been fully implemented.

69. Fund balances at the end of 2016 were $97.2 million, made up of reserves and employee benefits, multi-year contributions, end-of year contributions and unspent balances. UNCDF has made provisions for after-service health insurance as required by International Public Sector Accounting Standards and recalculated its operational core reserve to $12 million. The extrabudgetary reserve is at $2 million. Based on the recommendations of the United Nations Board of Auditors, UNCDF worked with an external firm to reassess the adequacy of its operational reserve. Appropriate adjustments will be made against the fund balances once a revised operational reserve methodology is approved.

III. UNCDF looking forward

70. In the year ahead, UNCDF is prioritizing three issues. First, it will continue to innovate, consolidate, and scale programmes and blended finance approaches in line with current workplans and budgets, and pursue new and broadened partnerships inside and outside the United Nations. Many UNCDF programmes take many years and more than one planning cycle to bear fruit. These will continue through the remainder of this Strategic Framework, and into the next, in support of LDC graduation and achievement of the Sustainable Development Goals.

71. Second, UNCDF will continue to evolve and adapt its models based on lessons learned, evaluations and programme monitoring, and will continue to use its capital mandate to expand the frontiers of finance in LDCs under the successor to the Istanbul Programme of Action. In particular, this is leading to a strong focus on using financing and digital tools to expand financial inclusion and access to real world goods and services; a push to expand access to finance for secondary cities in LDCs in line with the New Urban Agenda; an emphasis on helping local governments take climate action; a commitment to use data and diagnostics to drive policy and regulatory decisions related to inclusive finance; a dedication to proving the business case for providing financial services to underserved markets, such as women and young people; and throughout, a commitment to empowering women, both through mainstreaming gender and through stand-alone gender initiatives.

72. Third, UNCDF is preparing its next strategic framework for 2018-2021, in consultation with Member States, a wide variety of funding and implementing partners, UNDP, other United Nations entities and private sector actors. The substance of the new strategic framework will build on lessons, evaluations and reviews from the current Strategic Framework and IRRM. The Sustainable Development Goals will be mainstreamed into the next strategic framework, as per the quadrennial comprehensive policy review.

73. To make all of this happen, UNCDF will continue to seek to diversify its funding and partnership base even as it works with Member States to ensure a strong regular resources envelope to deliver on its goals. Fully funded, UNCDF will be able to bring strategic local finance solutions to up to 40 LDCs, helping them to increase access to public and private finance at the local level in support of inclusive pathways towards meeting the Sustainable Development Goals.

United Nations DP/2017/26

Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

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Item 15 of the provisional agenda
Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations for the year ended 31 December 2016. As requested by the Executive Board in its decision 2016/13, this report includes: an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNDP framework of governance, risk management and control; a concise summary of work; and the criteria that support the opinion.

The report addresses: requests made by the Board in previous decisions, such as adherence to a statement of conformance with the internal audit standards; a view as to whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage; timely information on challenges in discharging oversight responsibilities; review of recruitment procedures; and presentation of the organizational risk assessment (all listed in decision 2015/13).

It includes: the financial losses identified by investigations, and the manner and amount of recovery (decision 2014/21); the titles of all internal audit reports issued during the year, and ratings received (decision 2013/24); significant issues related to the public disclosure of internal audit reports (decision 2012/18); lessons learned from joint audits and cases of fraud and action taken in cases of misconduct (decision 2011/22); and requests from any non-Member State for disclosure of reports pre-2012 (decision 2011/23).

The management response to this report is presented separately (decision 2006/13) and the annual report of the Audit and Evaluation Advisory Committee is appended to this report (DP/2008/16/Rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express continuing support for strengthening the internal audit and investigation functions of UNDP; and (c) take note of the annual report of the Audit and Evaluation Advisory Committee.

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3. Recommendations unresolved for 18 months or more
4. Summary of substantiated investigation cases in 2016, by type of allegation
5. Criteria supporting the Office of Audit and Investigations opinion

Appendix (available on the Executive Board website)

Annual report of the Audit and Evaluation Advisory Committee for 2016

Introduction

1. The UNDP Office of Audit and Investigations submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2016. The report also contains information in response to decisions of the Executive Board as noted herein.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

2. The Office of Audit and Investigations aims to provide UNDP with an effective system of independent and objective internal oversight to improve the effectiveness and efficiency of UNDP operations in achieving its developmental goals and objectives. The purpose, authority and responsibility of the Office are defined in the charter approved by the Administrator.

3. The *International Professional Practices Framework* of the Institute of Internal Auditors requires that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfil its responsibilities, and must confirm to the Executive Board, at least annually, the organizational independence of the internal audit activity. The Office confirms its organizational independence. In 2016, it was free from interference in determining its audit scope, performing its work and communicating its results.

4. The Office has an effective quality assurance and improvement programme that covers both internal audit and investigation functions. Post-audit client surveys undertaken in 2016 showed that clients were satisfied with the conduct of audits. Periodic external quality assurance reviews are conducted every five years. The second external review for investigations finalized in 2015 resulted in an overall opinion that the Office adhered to its underlying policies, principles and guidelines, and conducted its investigative work in a professional and proficient manner. The third external review for internal audit is due to take place in 2017. The internal reviews performed in 2014-2015 and in 2016 showed continuous improvement since the last external review.

5. The Office continued to receive strong support from UNDP senior management. The Director participated in meetings of the expanded Organizational Performance Group (with other oversight office heads), which enabled discussions on long-outstanding recommendations and other audit-related matters of institutional significance with potential risk to UNDP. It continued to hold regular meetings with the Bureau for Management Services and regional bureaux to discuss key and recurring audit and investigation issues.

6. The Audit and Evaluation Advisory Committee, an external independent oversight body of UNDP, continued to provide advice to the Administrator on maximizing the effectiveness of UNDP internal audit and investigation functions. In 2016, the Committee reviewed the 2016 annual work plan of the Office and its implementation through quarterly progress reports. The Committee reviewed audit and investigation activities in the 2015 annual report presented to the Executive Board in 2016. In accordance with its terms of reference, the Committee held private sessions with the Director of the Office during each of its periodic meetings in 2016.

Coordination with external auditors

7. UNDP external auditors (United Nations Board of Auditors) continued to rely on audits of the Office of Audit and Investigations and its quality assurance review processes for third-party audits[1] of projects implemented by non-governmental organizations and national governments.

[1] "Third-party audits" refers to audits that are conducted neither by nor on behalf of the Office of Audit and Investigations. The audits of projects implemented by non-governmental organizations and national governments are conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices.

Basis for providing independent assurance to the Administrator

8. For purposes of providing assurance on governance, risk management and control, the annual work plan of the Office for 2016 covered the appropriate combination of business units, functions and activities at the headquarters, regional and country levels; directly implemented projects; and grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). Following its endorsement by the Audit and Evaluation Advisory Committee, the Administrator approved the 2016 annual work plan. During 2016, there were no challenges encountered in discharging oversight responsibilities that necessitated timely information to the Executive Board pursuant to decision 2015/13.

Organizational risk assessment for annual work planning (decision 2015/13)

9. The Office of Audit and Investigations formulated the 2016 audit plan after conducting a risk assessment of its auditable areas in UNDP as a whole. The Office undertook the planning process in a participative manner, holding a series of discussions with senior management and heads of concerned bureaux and being informed by the results from risk assessment models. It consulted the United Nations Board of Auditors to ensure proper audit coverage of UNDP and to minimize duplication of efforts in providing assurance to the Administrator and the Executive Board.

10. The Office has been using a risk assessment methodology since 2006, refining and expanding it annually to cover the varied components of its audit universe. Separate risk assessment models were used to identify audits for country offices, directly implemented projects, Global Fund programmes and projects, and headquarters and regional business units. In late 2015, the Office developed an aggregate risk model covering all the components of the audit universe in preparation for the 2016 work plan.

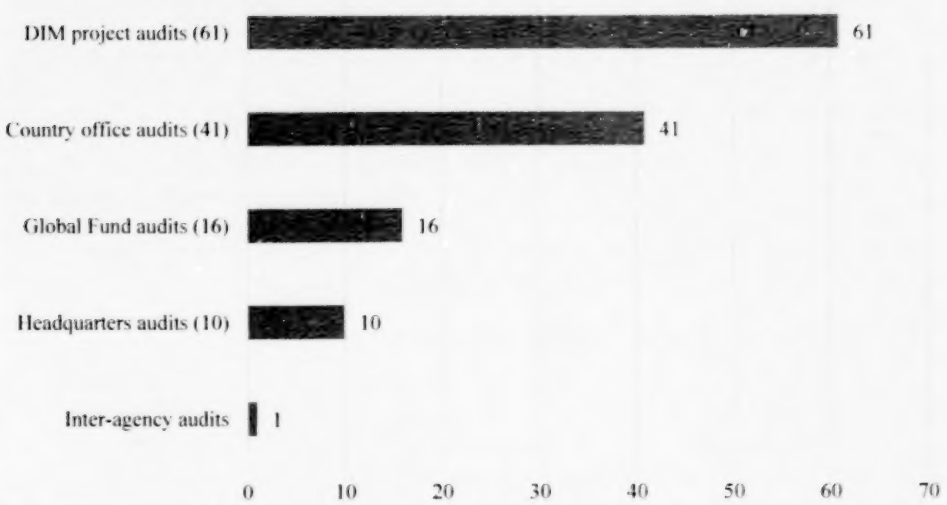
11. The risk assessment methodology covered the risk assessment process from risk identification to risk measurement and risk ranking. Both quantitative and qualitative risk indicators were used – classified as strategic, contextual, political, operational or financial – in line with the UNDP enterprise risk management categories of risks. The final risk ranking, which determines the frequency of audits, may be adjusted after consultation with management. Generally, entities ranked 'very high risk' are audited every two years, those ranked 'high risk' every three years, 'medium risk' every four years, and 'low risk' every five to six years.

Audit reports issued

12. In 2016, the Office issued 129 audit reports pertaining to UNDP: 10 headquarters audits; 41 country office audits; 16 Global Fund audits (including two consolidated reports); 61 audits of directly implemented projects; and one inter-agency audit (see figure 1). In accordance with decision 2013/24, annex 2 presents the titles and ratings of all internal audit reports issued in 2016.

13. Considering that most of the audit reports issued in 2016 covered activities of UNDP offices during 2015, the audit results generally reflected the status of programmes and operations in 2015. The 118 country-level audits covered about $3.2 billion (68 per cent) of approximately $4.7 billion of UNDP field-level expenditures. An additional $1.7 billion in expenditures were covered by third-party audits of non-governmental organization and nationally implemented projects.

Figure 1. Number and type of audit reports issued in 2016



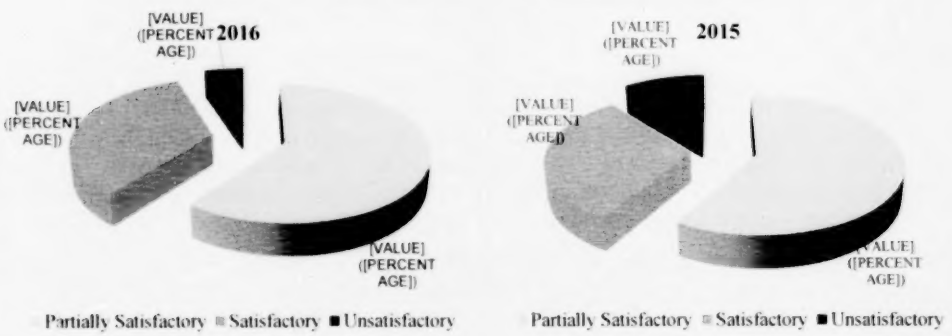
DIM = Directly implemented

Audit ratings

14. Based on audit results, the Office assigns an audit rating for the majority of its reports that reflects the adequacy and effectiveness of the governance, risk management and control processes at the audited-entity level. Exceptions include follow-up audits, solely financial audits of directly implemented projects, and consolidated reports on several audits.

15. Of the 129 reports, 71 did not contain an overall rating. Of the remaining 58 reports, 20 (35 per cent) had a 'satisfactory' rating; 35 (60 per cent) had a 'partially satisfactory' rating; and three (5 per cent) an 'unsatisfactory' rating (see figure 2). The comparison of the distribution of audit ratings in 2016 with that of 2015 shows a stable figure for 'satisfactory' ratings, a slight increase in 'partially satisfactory' ratings (by 2 per cent), and a decrease in 'unsatisfactory' ratings (by 6 per cent). The reports with 'unsatisfactory' ratings pertained to one headquarters process, one headquarters office, and one country office.

Figure 2. Comparison of audit ratings (2016 versus 2015)



16. There are two types of audits of directly implemented projects: (a) a financial audit, encompassing statements of project expenditure, fixed assets and cash; and (b) a combined financial audit and audit of internal control systems. Those that are solely financial, and are performed by audit firms, result in an audit opinion on expenditure, assets and, where applicable, cash-at-hand. These solely financial audits do not entail the use of the audit rating defined by the Office. Of the 61 such audits undertaken in 2016, 53 pertained to UNDP directly implemented projects and eight to the audit of UNCDF-related directly implemented projects. Out of the 53 audits, 49 were solely financial audits, for which the audit firms issued 42 unqualified and seven qualified opinions on the statements of project expenditures. The net financial misstatement reported for the projects with qualified opinions was $3.3 million (0.8 per cent of the total audited expenditure of $437.9 million). The 35 audits of statements on fixed assets resulted in 30 unqualified and four qualified opinions and one disclaimer of opinion. The net financial misstatement of those other-than-unqualified opinions was $474,729.

II. Disclosure of internal audit reports

17. In 2016, UNDP publicly disclosed 127 internal audit reports, six of which were partially redacted because they contained sensitive information (http://audit-public-disclosure.undp.org). There were 4,710 visits to the disclosure webpage, similar to the 4,844 visits in 2015.

18. In accordance with decision 2011/23, the Office hereby informs the Board that no request was received in 2016 from a non-Member State, a donor intergovernmental organization or the Global Fund for access to non-disclosed audit reports prior to 1 December 2012, when the disclosure policy for internal audit reports was implemented pursuant to decision 2012/8.

III. Staffing and budget

19. As of 31 December 2016, the Office had a total of 81 approved posts (including one temporary appointment post for the Social and Environmental Compliance Unit). Two posts were frozen until further notice. The Office thus had 79 active posts in 2016, compared with 80 in 2015. This figure excludes four posts funded by UN-Women and one Junior Professional Officer post.

Recruitment process (decision 2015/13)

20. Of the 79 active posts, 75 were encumbered and four were vacant. Recruitment for three of the four vacant posts had been completed by 31 December 2016; they were expected to be filled by the end of first quarter, 2017. Recruitment for the fourth vacant post will be initiated in 2017. In 2016, on a quarterly basis, the Office monitored its vacancy rate and the average number of months the staff positions had been vacant. It succeeded in having an overall vacancy rate of 5 per cent against a self-defined level of 7 per cent, and achieved an average rate of four months for a post to be encumbered, against an accepted period of six months.

Budget

21. In 2016, the Office had an overall approved budget of $18.3 million funded from core and other resources. It eventually received an allocation of $17.1 million (see figure 3). The difference between the budget approved and the budget received in 2016 of $1.2 million, or 6.5 per cent, represents an amount held back by UNDP management for unforeseen costs and risks. The amount held back did not have a significant impact on activities, as the actual amounts incurred for staff costs and operating expenses were lower than those budgeted.

22. In addition to the allocated $17.1 million, a total of $1.3 million in direct audit costs was charged to the respective budgets of each directly implemented project that was audited in 2016.

Figure 3. Resources in 2016

	(in $ millions)
Audit	9.7
Investigations	4.4
Management and support	1.8
Audit and Evaluation Advisory Committee	0.1
Total	**17.1**

Impact of budget constraints on audit mandate (decision 2015/13)

23. Overall, there were no significant challenges during the year that impacted the ability of the Office to discharge its oversight responsibilities.

IV. Significant internal audit results

A. Headquarters audits

24. The 10 headquarters audits pertained to two headquarters business units, six institutional functions, one programme and one project (information technology audit). The audit rated the United Nations Office for South-South Cooperation as 'unsatisfactory'. The report recommended improvements in the areas of organizational structure and strategic management, partnerships and resource mobilization, programme and project activities, and operations, mainly in the administration of human resources and travel. The audit also rated UNDP vendor management as 'unsatisfactory' and actions were recommended to address weaknesses in the vendor sanctions process, the decentralized vendor management system, inadequate guidance for post-qualification processes and weaknesses in the Atlas vendor management module. The information and communications technology audit rated the cloud computing project as 'satisfactory'; however, it recommended improved project management through adherence to the initially approved methodology for every project, and assurance that a specific risk assessment be conducted.

Performance audits

25. Three audits were conducted using a performance audit approach, focusing on the efficiency and effectiveness of systems and procedures.

26. The audit of the Regional Bureau for Arab States raised recommendations aimed at improving the oversight of the regional programme and projects, the recruitment of staff to fill vacant positions, and the quality of operational support provided to country offices. The audit of the UNDP financial sustainability and effectiveness exercise concluded that, overall, the exercise was conducted in line with relevant policies and requirements and was effective in reviewing the financial sustainability of country offices; it recommended the introduction of a new change management policy. The audit of UNDP results-based management assessed the relevant policies and practices as 'satisfactory', and recommended actions to clarify the guidance on the concept and use of 'theory of change' to improve the quality assessment process and increase the use of 'TRAC-2' as an incentive to promote evidence of good performance at the country office.

27. Altogether, the 10 headquarters audit reports resulted in 46 recommendations, of which 14 (30 per cent) were ranked 'high priority'.

B. Country office audits

28. The 41 country office audit reports issued in 2016 included 40 audits of general scope and one audit of a specific office function (financial management). The significant issues are grouped according to the audit area or sub-area in figure 4; those noted in at least five offices are considered 'recurrent'.

Figure 4. Recurrent country office audit issues
(Presented according to the sub-area with the most recurrent issues)

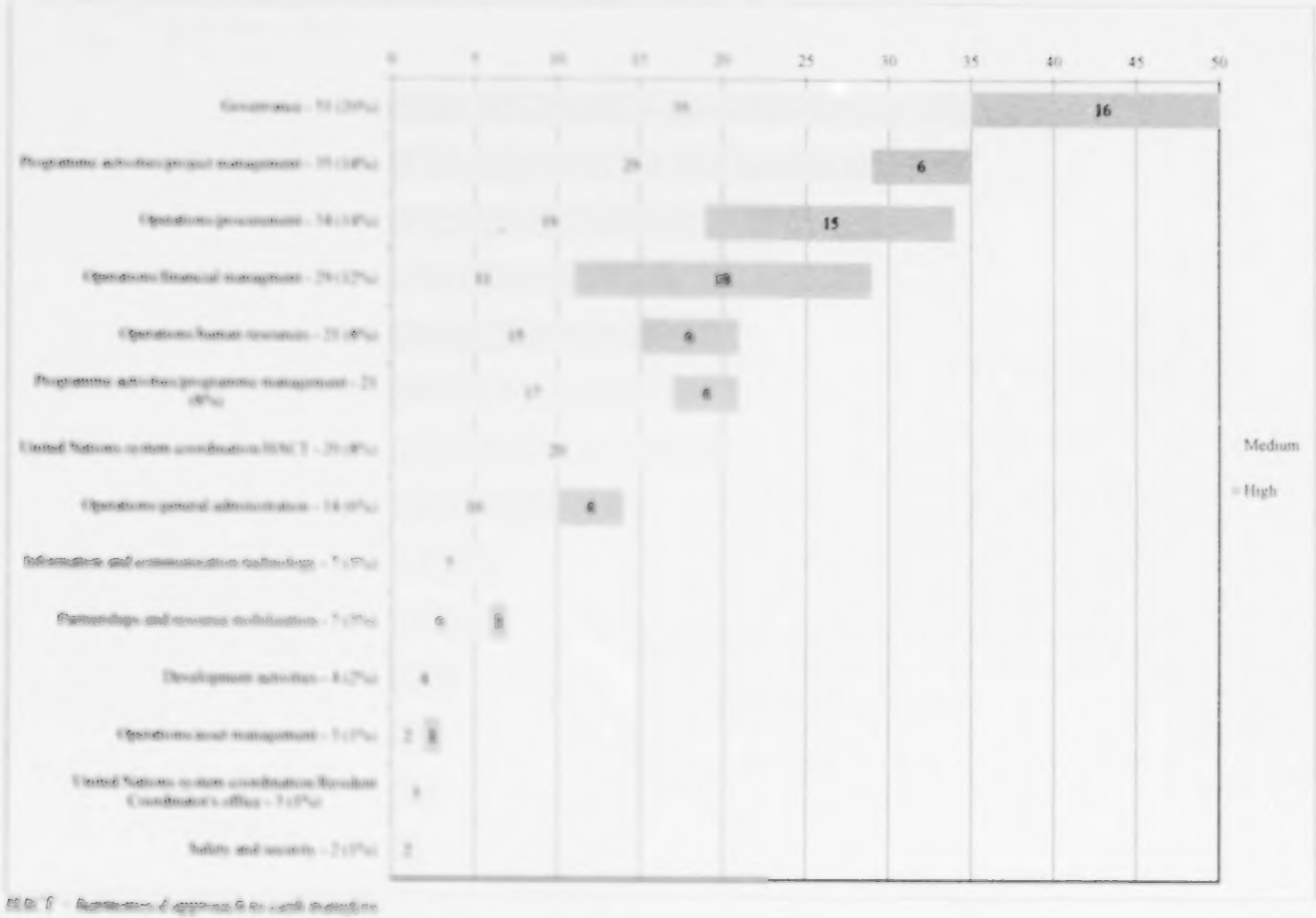
Audit area or sub-area	Recurrent audit issues
Governance and strategic management	Financial sustainability of the office at risk, mainly due to low programme delivery, declining extrabudgetary reserves, and high operational costs* (15 offices). Inadequate organizational structure, unclear roles and responsibilities, and conflicting and inconsistent Atlas profiles and roles* (9 offices).
Operations financial management	Inadequate controls over cash advances, including delayed liquidation of cash advances, delays in recovering costs for support services, and inadequate oversight of payments* (21 offices).
Operations procurement	Weaknesses in procurement management such as lack of transparency during evaluation of offers, lack of vendor checks prior to their creation, lack of justification for direct contracting, delays in procurement planning, non-submission to the appropriate procurement review committees, weak use of e-requisitions, and ineffective procurement oversight (19 offices). Inadequate management of individual contracts, including terms of payment, and deliverables and milestones that were not properly defined* (5 offices).
United Nations system coordination harmonized approach to cash transfers	Inadequate implementation of the harmonized approach to cash transfers, including macro- and micro- assessments not conducted and assurance plans not prepared* (20 offices).
Programme activities project management	Inadequate project implementation, including weak monitoring and evaluation, delays in preparing annual work plans related to projects, and unclear project baselines, indicators, and targets* (18 offices).
Programme activities programme management	Inadequate programme management, including absence of annual review of country programmes (10 offices). Lack of resource mobilization strategy (5 offices).
Operations human resources	Weaknesses in human resources management, including non-completion of mandatory trainings of staff and performance management and development processes, and inadequate controls in recruitment of personnel* (8 offices). Inadequate management of service contracts, such as engaging service contract holders to perform core functions and not complying with the *UNDP Service Contract User Guide* (6 offices).
Operations information and communications technology	Weaknesses in information and communications technology management, such as untested disaster and recovery plan and inadequate maintenance of back-up media (7 offices).
Operations general administration	Weaknesses in travel management, including late submission of travel requests and lack of supporting documents to travel claims or requests* (5 offices).

* *Issues also recurrent in 2015.*

29. Altogether, the above audits resulted in 251 recommendations, 71 (28 per cent) of which were rated 'high priority' (see figure 5).

Figure 9. Distribution and prioritization of country office audit recommendations in 2016 reports

(Total recommendations: 251)



C. Global Fund audits

30. Sixteen reports were issued in 2016, 14 of which related to grants managed by UNDP as principal recipient and two of which were consolidated reports. They covered the management of Global Fund grants in 10 country offices (four in Africa, four in the Arab States, one in Latin America and the Caribbean and one in the Asia and the Pacific region).

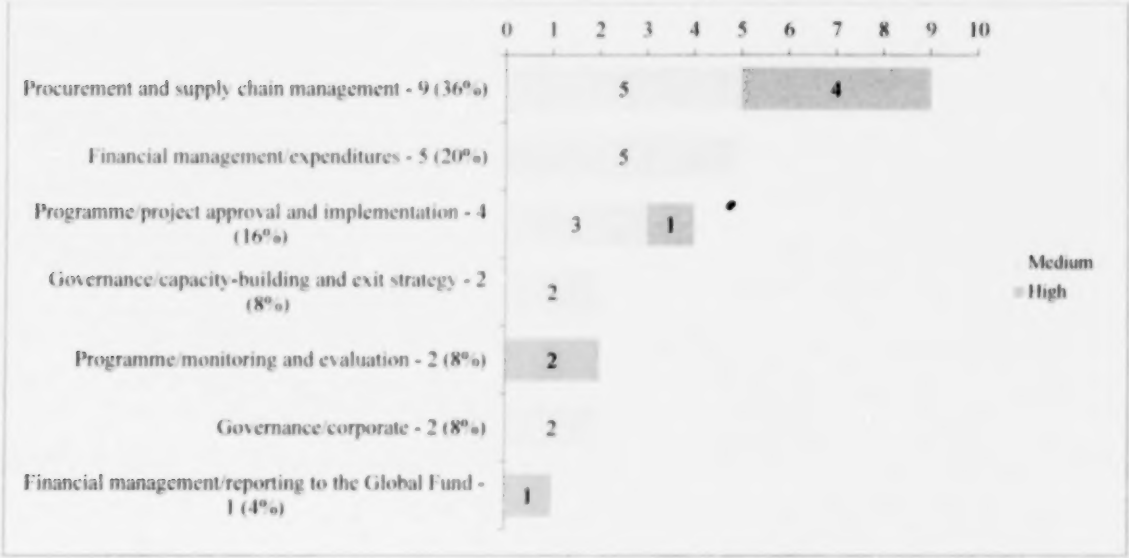
31. The 14 audit reports related to grants managed by UNDP as principal recipient contained 25 recommendations (see figure 6), the majority (66 per cent) of which were in the areas of: (a) procurement and supply chain management; and (b) financial management/expenditures and programme/project monitoring and evaluation processes. The significant issues are grouped according to the audit area in figure 7.

Figure 6. Recurrent Global Fund audit issues

Audit area/sub-area	Recurrent audit issues
Procurement and supply chain management	Weaknesses in inventory management, such as weak information system to track and monitor pharmaceutical products and their stock levels (4 offices). Lack of testing pharmaceutical products (2 offices).
Project management/ monitoring and evaluation	Gaps in project management, such as monitoring and evaluation processes, oversight and management of project funds (2 offices).

Figure 7. Distribution and prioritization of Global Fund audit recommendations in 2016 reports

(Total recommendations: 25)



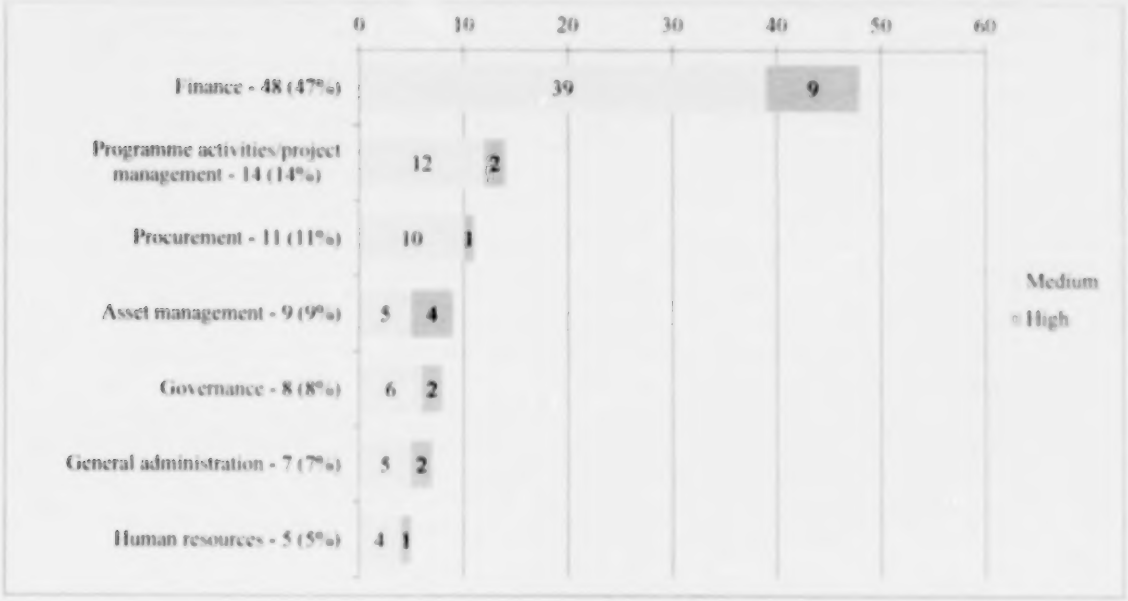
D. Project audits

32. Projects directly implemented by UNDP can be reviewed as part of the audit of an office or can be audited separately, especially if the project expenditure is significant for the office or presents high risks. In 2016, 61 directly implemented projects were audited separately, with a total audited expenditure amounting to $464.4 million. Out of these, 53 were directly implemented by UNDP and amounted to $437.9 million. The remaining eight projects were directly implemented by UNCDF.

33. Audits of directly implemented projects resulted in 102 recommendations (see figure 8), with a significant number of recommendations under the area of operations/financial management (47 per cent), such as inaccurate recording and a lack of supporting documents to justify accounting entries. Other areas with a notable number of recommendations were project management, procurement, asset management, and governance.

Figure 8. Distribution and prioritization of audit recommendations concerning directly implemented projects in 2016 reports

(Total recommendations: 102)



E. Inter-agency audits

34. In 2016, the Office of Audit and Investigations issued one inter-agency report as a result of joint and coordinated audit work among the internal audit services of several United Nations organizations (Office of Internal Oversight Services, UNFPA, and UNOPS).

35. The joint audit of the governance arrangement for the South Sudan Common Humanitarian Fund resulted in recommendations aiming to clarify the role of the Fund Advisory Board in the reserve allocation process; to improve the sharing of capacity assessment reports and project audit reports in the joint Office for the Coordination of Humanitarian Affairs-UNDP technical secretariat; and to complete the implementation of the risk mitigation process.

Lessons learned from inter-agency audits (decision 2011/22)

36. Since 2009, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services, the Office has both led and participated in inter-agency audits and has issued 18 inter-agency audit reports covering selected multi-partner trust funds, 'delivering as one', and the harmonized approach to cash transfers. The experience continued to show that inter-agency audits require significantly more time to plan, conduct and report than others, owing to the need for consultations and inputs from the internal audit services and management of participating organizations.

37. In 2016, the Office performed a meta-analysis of 'delivering as one' joint audits and reported the results to the Representatives. The analysis quantified and proved the costly and time-consuming nature of inter-agency joint audits. The Office plans to introduce measures to increase efficiency in the inter-agency joint audits in 2017, including more reliance on parallel audits rather than joint audits and improved risk-based selection and focus on the audit subject areas.

V. Follow-up to audit recommendations

38. The overall implementation rate of audit recommendations was 87 per cent as of 31 December 2016, slightly above the rate achieved in 2015 (85 per cent). The rate covered all reports issued by the Office from 1 January 2014 to 30 November 2016. There were 17 recommendations that had not been fully implemented for 18 months or more (see annex 3 for complete listing). This is a major improvement from 2015, when 50 recommendations were outstanding for 18 months or more. Recommendations from inter-agency audits were not included in the count of long-outstanding recommendations as the monitoring of the implementation of recommendations involved other United Nations organizations and thus normally require a longer implementation time.

39. Of the 17 recommendations, four (24 per cent) were ranked 'high priority'. Three of the 17 recommendations pertaining to the Office of Human Resources had been outstanding for at least 24 months. Five of those pertained to the UNDP offices in Guinea-Bissau, Argentina, Mauritania and Cuba (Global Fund grants), and the remaining nine were related to the headquarters audits of UNDP fast-track policies and procedures, the Legal Office, and travel management.

40. The implementation rate as of 31 December 2016 for recommendations raised in audit reports issued in 2016 was already at 54 per cent (higher than the 52 per cent reported as of 31 December 2015), indicating that immediate action was taken by management on the majority of audit issues raised by the Office.

VI. Review of audits of projects executed by non-governmental organizations and/or national governments

41. The Office reviews annual audits of nationally implemented UNDP projects executed by non-governmental organizations or national governments. The audits for fiscal year 2015 were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. The audit reports were due for submission by 30 April 2016. As of 31 December 2016, the Office had received 894 audit reports, with eight audit reports still outstanding from the Islamic Republic of Iran, Iraq and Nicaragua. For the Islamic Republic of Iran, and Iraq, the projects could not be audited as those countries' governments would not allow private firms to conduct audits of their institutions. In the case of Nicaragua, the outstanding audits did not take place due to an earlier decision by the Government to suspend all programmatic activities until further notice.

Office of Audit and Investigations review results

42. Of the 894 reports received, the Office has reviewed 435 in depth, representing $1.4 billion in expenses (82 per cent of the audited expenses). In the majority of cases, the auditors of non-governmental organization/nationally implemented projects found that financial expenses were presented fairly, and issued an 'unqualified' opinion in respect of $1.6 billion (95 per cent) of the total $1.7 billion of audited expenses.

43. Review letters, drawing the attention of the country offices to areas requiring improvement, were issued to all 112 country offices that submitted audit reports. Eighty-one countries (72 per cent) received an overall 'satisfactory' rating from the Office for fiscal year 2015, compared to 82 per cent for fiscal year 2014; 23 countries (21 per cent) received 'partially satisfactory' ratings, compared to 14 per cent in 2014; and eight countries (7 per cent) received 'unsatisfactory' ratings in 2014, an increase from the 4 per cent reported for 2014 (see figure 9). The overall rating encompassed four elements: (a) strength of existing internal controls; (b) timely follow-up of audit recommendations; (c) compliance with audit scope requirements; and (d) timely administration of audit exercise. The 'unsatisfactory' ratings were due mainly to the materiality of the net financial

misstatement, inadequate follow-up of audit observations, and the severity of observations raised in the reports.

Figure 9. Results of assessment of the quality of audit reports of non-governmental organization/nationally implemented projects

	Overall rating			
	Fiscal year 2015 (Audits conducted in 2016)		*Fiscal year 2014 (Audits conducted in 2015)*	
Rating	Number of countries	%	Number of countries	%
Satisfactory	81	72	89	82
Partially satisfactory	23	21	15	14
Unsatisfactory	8	7	4	4
Total number of country offices	112	100	108	100

Key audit issues in non-governmental organization/nationally implemented projects and actions taken

44. The audit reports of non-governmental organization/nationally implemented projects that were reviewed in detail contained 1,430 issues, the majority of which (73 per cent) were ranked medium priority. Forty-nine per cent of the issues pertained to financial management.

45. The Office monitored the actions taken by the country offices to implement the audit recommendations and noted that, as of 31 December 2016, 81 per cent of the 1,430 audit issues had been adequately addressed.

Audit opinions and net financial misstatement

46. For the reports with modified opinions, the Office calculated the total net financial misstatement for fiscal year 2015 to be a net overstatement of $8.9 million, or 0.5 per cent over the total audited expenditure ($1.7 billion). This is slightly higher than in 2014 ($6.1 million). The net financial misstatement was due to modified opinions on 79 projects in 35 countries. The qualifications were due mainly to unsupported expenses (27 projects), ineligible expenses (17 projects) or incorrect recording of advances or expenses (15 projects).

Audit of harmonized approach to cash transfers

47. For financial year 2015, eight country offices (Bhutan, Cabo Verde, the Democratic Republic of the Congo, Indonesia, Morocco, Thailand, the United Republic of Tanzania, and Viet Nam), which follow the harmonized approach to cash transfer procedures, planned the required financial or internal control audits of implementing partners.

48. As of 31 December 2016, the Office had received 30 of the 49 audit reports planned and had completed the review of 21 audit reports. For the internal control reports, the auditors provided a 'satisfactory' rating for five reports and a 'partially satisfactory' rating for the remaining eight. For the financial audit reports, the auditors provided 'unqualified' opinions for seven and a 'qualified' opinion for one, with a net financial misstatement of $56,131.

VII. Investigations

49. During 2016, the Office opened 205 new cases and carried over 204 cases from 2015, bringing the 2016 caseload to 409.

50. The Office closed 233 of those 409 cases in 2016. At the end of 2016, 176 cases were carried over to 2017 (see figure 10).

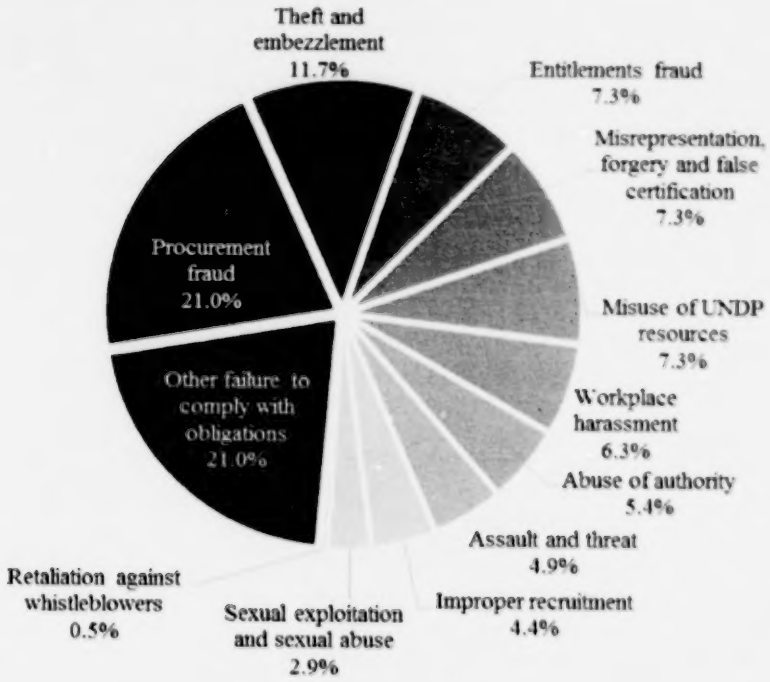
Figure 10. Office of Audit and Investigations caseload, 2015 and 2016

Caseload	2015	2016
Carry-over as of 1 January	162	204
Intake during the year	370	205
Total cases during the year	**532**	**409**
Closed (from cases carried over)	114	128
Closed (from intake)	214	105
Total closed	**328**	**233**
Carried forward as of 31 December	204	176

Types of complaints

51. Complaints relating to financial irregularities (procurement fraud; theft and embezzlement; misuse of UNDP resources; misrepresentation, forgery and false certification; and entitlements fraud) constituted 54.6 per cent of the cases received by the Office in 2016, a 6.4 per cent decrease compared to the 61 per cent recorded in 2015 (see figure 11).

Figure 11. Types of complaints received in 2016


Theft and embezzlement 11.7%
Entitlements fraud 7.3%
Misrepresentation, forgery and false certification 7.3%
Misuse of UNDP resources 7.3%
Workplace harassment 6.3%
Abuse of authority 5.4%
Assault and threat 4.9%
Improper recruitment 4.4%
Sexual exploitation and sexual abuse 2.9%
Retaliation against whistleblowers 0.5%
Other failure to comply with obligations 21.0%
Procurement fraud 21.0%

52. Africa is the region from which the Office received the most complaints (60 cases) in 2016, followed by the Asia and the Pacific region (39 cases), Arab States (29 cases), Europe and the Commonwealth of Independent States (22 cases) and Latin America and the Caribbean (11 cases). The Office received seven cases from headquarters and 37 cases involving staff members or other personnel on UNDP contracts assigned to other United Nations organizations (see figure 12).

Figure 12. Cases received in 2016, by region

	No. of cases received
Africa	60
Asia and the Pacific	39
Other United Nations organizations	37
Arab States	29
Europe and the Commonwealth of Independent States	22
Latin America and the Caribbean	11
Headquarters	7
Total	**205**

Processing of cases

53. Of 233 cases that were closed in 2016, 75 (32 per cent of the cases finalized) were closed after an initial assessment. Of those 75 cases, 68 were closed because evidence of wrongdoing was insufficient to justify an investigation; because the allegations did not fall within the mandate of the Office; or because an investigation was not warranted. Seven cases were referred to other offices for appropriate action (see figure 13).

54. The remaining 158 cases were closed as a result of an investigation in which 66 cases (42 per cent) resulted in an investigation report establishing evidence of misconduct or other wrongdoing, an increase of 32 per cent over the total number of cases (50) closed with investigation reports in 2015. As one investigation report can be issued to close more than one case in instances of misconduct where there is more than one perpetrator, the 66 cases that were substantiated in 2016 resulted in the issuance of 60 investigation reports. The other 92 cases were found to be unsubstantiated and were closed after investigation (see figure 13).

55. At the end of 2016, 15 cases were still under assessment and 161 under investigation.

Figure 13. Disposition of cases

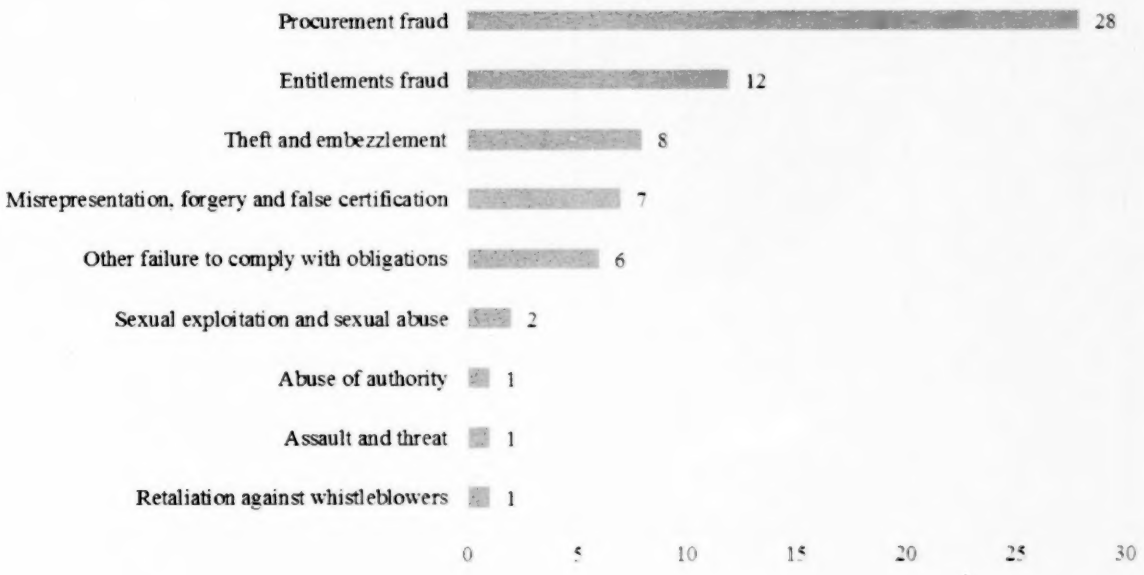
Actions taken	**No. of cases 2015**	**No. of cases 2016**
After assessment		
Closed, investigation not warranted	118	68
Referred to other UNDP offices	17	7
Total	**135**	**75**
After investigation		
Closed *(not substantiated)*	**143**	**92**
Closed *(substantiated)*		
- Submitted to Legal Office	13	23
- Submitted to country offices	16	13
- Submitted to Vendor Review Committee	15	25
- Submitted to other organizations	3	3
- Submitted to other UNDP offices	3	2
- Other investigation reports	-	-
Subtotal *(substantiated)*	**50**	**66**
Total cases closed after investigation	**193**	**158**

Total cases closed during the year	**328**	**233**
Investigation reports issued	**47**	**60**
Management letters issued	**31**	**15**

Substantiated cases

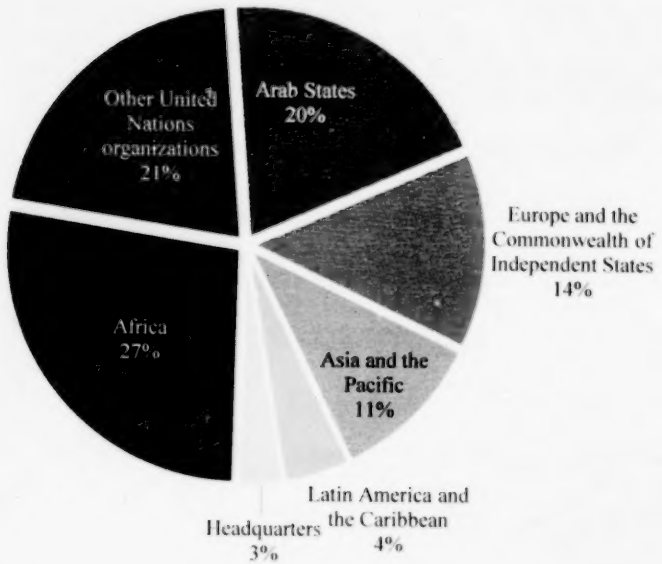
56. The misconduct identified in the 66 substantiated investigations was mostly procurement fraud (28 cases, or 42 per cent), entitlements fraud (12 cases, or 18 per cent), and theft and embezzlement (8 cases, or 12 per cent) (see figure 14). A summary of the substantiated investigations in 2016, by type of allegation, is included in annex 4.

Figure 14. Cases substantiated in 2016 by category



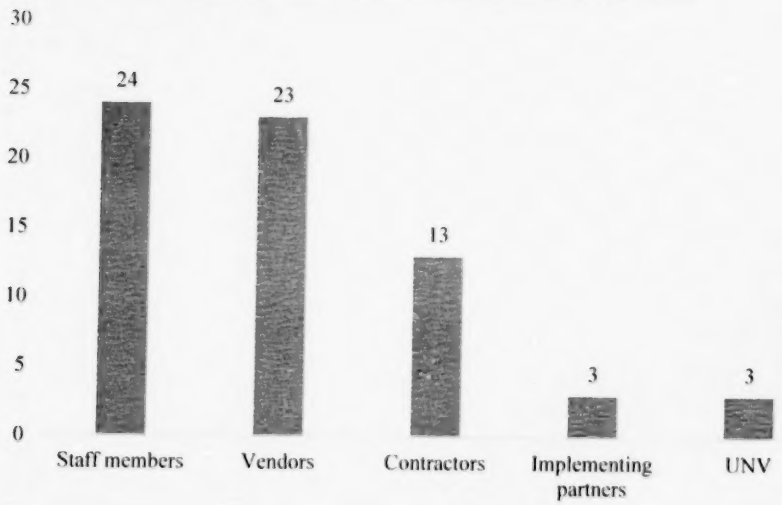
57. Of the 66 substantiated cases, 27 per cent occurred in the Africa region and 20 per cent in the Arab States region (see figure 15).

Figure 15. Cases substantiated in 2016, by region


Other United Nations organizations 21%
Arab States 20%
Europe and the Commonwealth of Independent States 14%
Africa 27%
Asia and the Pacific 11%
Latin America and the Caribbean 4%
Headquarters 3%

58. The 66 substantiated cases involved 24 staff members, 23 vendors (including an individual contractor), 13 contractors (service contract holders), three implementing partners, and three United Nations Volunteers (see figure 16).

Figure 16. Cases substantiated by contractual status



Management letters

59. In 2016, the Office issued 15 management letters to relevant business units to address weaknesses in internal controls, as noted by investigators.

Financial losses and recovery (decisions 2014/21 and 2015/13)

60. The total financial loss for UNDP that was substantiated in investigation reports from the Office during 2016 amounted to approximately $1.46 million (see annex 4). The loss related to six cases of theft and embezzlement, including one Global Fund grant case, four cases of entitlements fraud and one case of misrepresentation, forgery and false certification. As of the date of preparation of this report, UNDP had recovered approximately $42,000 (2.9 per cent) of the loss identified. In addition, approximately $2.23 million was recovered in 2016 in seven cases reported in previous years. Part of that amount was not reported as loss during the respective reporting year as investigation reports had not been issued in three of these cases.

61. In 2016, a task force chaired by the Bureau for Management Services was established to look at the recovery of assets lost due to fraud and theft in recent years. The Office participated in the task force, which explored the challenges in asset recovery, as well as best practices and solutions, in order to increase the rate of recovery.

Actions taken in cases of misconduct (decision 2011/22)

62. Follow-up actions taken by other offices (the Legal Office, the Advisory Panel on Disciplinary Measures, the Ethics Office, country offices, the Vendor Review Committee and regional bureaux) in the cases substantiated by the Office are detailed below.

63. Based on the 23 investigation reports sent to the Legal Office concerning staff members in 2016, three staff members were dismissed. For five staff members who had separated prior to the completion of the investigation, a letter was placed in their file pursuant to Article 72 of the Legal Framework indicating that they would have been charged with misconduct had they remained employed with the organization. Two staff members were exonerated of misconduct and received a reprimand letter. The remaining 13 reports sent to the Legal Office were still under review at the end of 2016.

64. The Office submitted three investigation reports to the Advisory Panel on Disciplinary Measures concerning United Nations Volunteers. Based on those three reports, two United Nations Volunteers were dismissed. One report was still under review at the end of 2016.

65. The Office submitted one investigation report to the Ethics Office, which made its independent determination that the complainant had suffered retaliation and reported the matter to the Legal Office.

66. Of the 13 reports that the Office submitted to country offices, two service contract holders had their contracts terminated, while the contracts of five were not renewed. Five service contract holders had resigned prior to the finalization of the investigation. The remaining report was still under review by the country office at the end of 2016.

Other investigation reports

67. In 2016, the Office submitted 19 investigation reports (involving 25 cases) to the Vendor Review Committee. All 19 reports remained under review by the Committee at the end of 2016. One investigation report was submitted to another UNDP bureau in 2016. The Office submitted to the Legal Office four requests for referrals to national authorities in 2016, for transmittal to the Office of Legal Affairs of the United Nations Secretariat. As of 31 December 2016, the Office of Legal Affairs had referred one case to the national authorities.

Social and environmental compliance

68. The Social and Environmental Compliance Unit within the Investigations Section of the Office investigated two cases in 2016. In addition to those cases, the Unit continued to analyse complaints and inquiries from various external stakeholders.

VIII. Coordination within the United Nations system

69. As the chair of the United Nations Representatives of Internal Audit Services in 2015-2016, the Director of the Office of Audit and Investigations continued to lead the Representatives' activities, which included bimonthly 'virtual meetings'; consultations with the Bilateral Donors' Oversight Network; engagement supervisions on inter-agency joint audits; and the development and harmonization of audit tools and methodology.

70. In September 2016, the Office hosted the 2016 Representatives' annual meeting, where the working group session on engagement-level audit opinion concluded on a four-tier opinion, to be made available to participating organizations.

71. The Office continued to interact with Member States and counterparts to identify and share best practices, discuss matters of common interest, and promote cooperation with audit and investigation services in the United Nations system and other multilateral organizations. The Deputy Director and Head of Investigations, Office of Audit and Investigations, served as Vice-Chair for the United Nations Representatives of Investigative Services during 2015-2016. The Office is a member of the Secretariat of the Conference of International Investigators, and agreed in 2016 to co-host, with the United Nations Secretariat, UNICEF and UNFPA, its annual conference in New York in 2017. Planning and preparation work is under way.

IX. Advisory and other audit services

Advisory services

72. The Office continued to provide advice to all levels of management at headquarters, regional centres and country offices. The advice covered a wide range of subjects, such as audit processes for non-governmental organization/nationally implemented projects and directly implemented projects and reporting, assessment for the harmonized approach to cash transfers, human resources processes, and information and communication technology policies. The Office regularly reviewed audit clauses in contribution agreements with donors, as requested.

73. In 2016, the Investigations Section continued to provide briefings to all UNDP regional bureaux and other offices, including the Bureau for Management Services, as well as to individual country offices, when required, on lessons learned from previous cases, with an emphasis on fraud prevention and early detection to mitigate the risk of fraud.

Audit and investigation services for the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

74. Based on a two-year service agreement dated 6 December 2015 with the Executive Director of UN-Women, the Office continued to provide internal audit and investigation services to UN-Women in 2016. The Office has a dedicated UN-Women Audit Unit, with four posts fully funded by UN-Women. The internal audit and investigation activities of the Office in this regard are reported separately to the Executive Board of UN-Women.

X. Opinion

75. The Office provides independent internal oversight through internal audits on the adequacy and effectiveness of the UNDP governance, risk management and control framework. In accordance with the UNDP oversight policy as part of the UNDP accountability framework (DP/2008/16/Rev.1), the United Nations Board of Auditors provides independent external oversight through audits of the UNDP financial statements and related financial procedures, accounting system, internal financial controls and administration, and the overall management of UNDP. The primary objective of the work performed by the United Nations Board of Auditors, as distinct from that of the Office of Audit and Investigations, is to express an opinion on UNDP financial statements.

76. Decision 2016/13 requires the Office to provide a rationale for the overall opinion presented in 2016, following its introduction in 2015 (decision 2015/13), based on the scope of work undertaken, and on the adequacy and effectiveness of the framework of governance, risk management and control framework of UNDP.

77. The opinion of the Office is based on the audit reports issued between 1 January and 31 December 2016, the majority of which covered UNDP activities in 2015. A summary of the audit work that supports the opinion is included in chapter IV of the present report, and the supporting criteria and the methodology used to form the audit opinion are described in annex 5. The risk assessment methodology of the Office, which increases the frequency of audits of high-risk entities, is described in chapter I.

78. Based on the scope of work undertaken and the adequacy and effectiveness of the UNDP framework of governance, it is the opinion of the Office of Audit and Investigations that the elements of risk management and control covered in the audit reports issued in 2016 were, in aggregate, partially satisfactory, meaning that they were generally established and functioning but needed improvement. The 87 per cent implementation ratio of audit recommendations as at 31 December 2016 was above the target set in the UNDP integrated results and resources framework. This implementation rate gives comfort that, in general, appropriate and timely action is taken as and when improvements in the governance, risk and control mechanisms are necessary.

United Nations DP/2017/27

Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

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Item 16 of the provisional agenda
Reports of UNDP, UNFPA and UNOPS Ethics Offices

Activities of the UNDP Ethics Office in 2016

Report of the Ethics Office

Summary

Pursuant to decision 2008/37 of the Executive Board, the UNDP Ethics Office submits the present report which covers its activities in 2016. In accordance with the Secretary-General's bulletin on United Nations system-wide application of ethics, separately administered organs and programmes (ST/SGB/2007/11), the Ethics Panel of the United Nations reviewed the report at its 89th session on 8 February 2017 and the report was subsequently presented to the Administrator of UNDP.

This is the ninth annual report presented by the Ethics Office since its establishment in 2007.

Elements of a decision

The Executive Board may wish to take note of the present report and comment on progress made by the UNDP Ethics Office in strengthening the ethical culture of UNDP, including training, raising ethics awareness and protection against retaliation.

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I. Introduction

1. The present report is submitted pursuant to Executive Board decision 2008/37 and highlights the work of the UNDP Ethics Office in 2016, in accordance with its mandate to "cultivate and nurture a culture of ethics, integrity and accountability, and thereby enhance the trust in and credibility of the United Nations, both internally and externally", as stipulated in Secretary-General's bulletin ST/SGB/2007/11, section 1.1.

2. The report summarises the activities of the Ethics Office in each mandate area, and reflects its vision for programme enhancement and embedding ethics in business processes and decision-making, in line with the shared value of 'operating with unwavering integrity'.

3. The Ethics Office functions on the principles of independence, impartiality and confidentiality, and seeks to reinforce UNDP values of integrity, transparency, accountability, mutual respect, professionalism and results orientation through principled performance. Committed to supporting the adherance of UNDP personnel to the highest standards of integrity as required by the Charter of the United Nations, in 2016 the Ethics Office continued to develop and roll-out an ambitious ethics programme designed to engage UNDP senior leadership, management and staff, and positively impact upon the work of the organization. At its core, the promotion of ethical behaviour and decision-making at all levels of the organization serves to strengthen UNDP's operations and programmes, and protect the reputation of the organization.

4. As in prior years, the Office undertook activities within its following areas of responsibility: (a) standard-setting and policy support; (b) ethics training, awareness-raising and outreach; (c) providing confidential advice and guidance to staff and management on ethics issues and ethics-related policies; (c) administering the financial disclosure programme; and (d) administering the protection against retaliation policy. The Office additionally continued to collaborate with the Ethics Panel of the United Nations (EPUN) and the Ethics Network of Multilateral Organizations (ENMO) to harmonize ethics policies and practicies within the United Nations system.

5. In 2016, the Ethics Office received 836 requests for its services, the highest number ever received and a 30 per cent increase from the 643 requests received in 2015. Figure 1 below provides a breakdown of requests for services received by the Ethics Office for the 2016 reporting cycle.

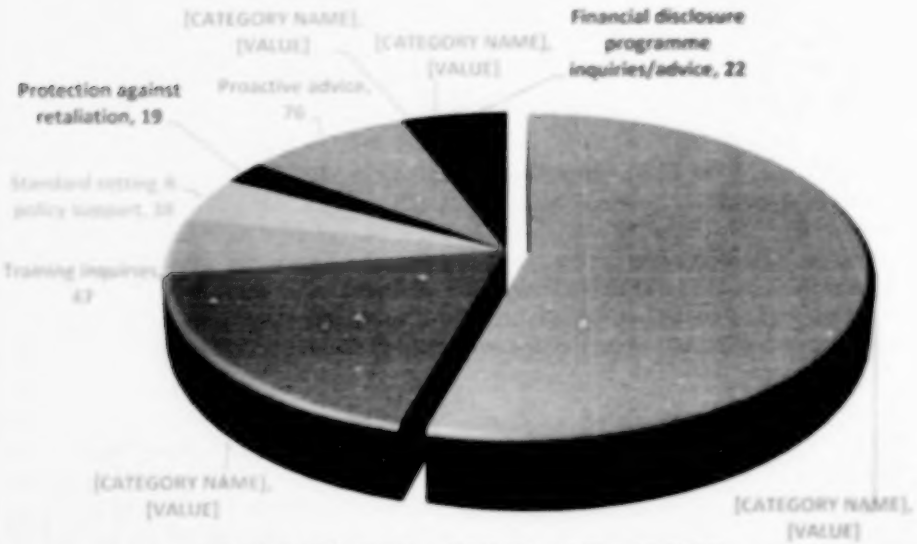
6. Although it is staffed with a small team - a Director, Ethics Adviser, and an Administrative Assistant - the Ethics Office has handled significant yearly increases in service demands while concurrently developing and implementing proactive and innovative ethics initiatives. Despite the increased demands placed on the Office, it has remained fully responsive to all staff and business unit requests, and continues to provide timely and quality services. To maintain its effectiveness, and to further consolidate and expand its provided ethics services, the Ethics Office continues to seek additional staffing support in the form of a Junior Professional Officer or United Nations Volunteer.

7. Other notable results the Ethics Office achieved during the reporting period include: responding to 454 requests for confidential ethics advice and guidance; conducting reviews of multiple UNDP policies, processes, and practices to facilitate incorporation of ethics considerations; reviewing 1,293 financial disclosure statements in record time; conducting outreach missions to multiple duty stations;

organizing and/or delivering face-to-face ethics training for over 1,200 personnel; and finalizing UNDP's first 'Code of Ethics'. The Office continued to provide tailored ethics briefings to senior management, and made innovative use of social media platforms to share information and promote a culture of ethics, transparency and accountability within UNDP. The proactive, practical and focused engagement of the Ethics Office at all levels of the organization continues to strengthen its ability to positively influence UNDP policies, managerial practices, and staff conduct.

8. The Ethics Office has found its efforts to embed ethics values and standards within the programming and operations of the organization have been embraced by staff and senior management alike. Across the organization, ethics is recognised as a critical component of UNDP service delivery. UNDP senior leadership and other personnel in the Business Unit and at country office and regional office levels continue to seek out the services of the Ethics Office to ensure that business decisions are appropriately guided and informed by applicable ethics standards, and that individual conduct (be it performed in an official or personal capacity) complies with the organization's ethical expectations and requirements.

Figure 1. Requests for advice and other services by category, 2016



REQUESTS FOR ADVICE AND OTHER SERVICES, BY CATEGORY 2016

II. Administrative activities

9. Despite the broad scope of its activities and responsibilities, the Ethics Office continued to operate with a small number of staff members, and faced additional pressures in 2015 and 2016 as a result of internal staffing changes. As a consequence of the resignation of the Ethics Adviser in 2015, the Ethics Office operated with only a D1 Director and a G6 Administrative Assistant from August 2015 to March 2016. During this seven month period the Director handled all substantive ethics matters for the organization. Although the arrival of a new Ethics Adviser in March 2016 significantly increased the capacity of the Ethics Office to deliver services it continues to face staffing challenges. Having previously operated from 2009 to 2014 with a Junior Professional Officer (JPO), 2016 marked the second consecutive year the Ethics Office functioned without a JPO despite UNDP's repeated placement requests made to Member States. In 2016, the Ethics Office also inquired about the possibility of securing the services of a United Nations Volunteer, but such an arrangement without Member State funding support would have significant, negative budgetary implications for the Office.

10. In 2016, the total budget for the Ethics Office remained static although the *pro rata* portion of the budget reflecting operating expenses for the Office was slightly below $200,000 (where it had remained constant for the prior seven years). The concern is that given staffing costs and operating expenses increase year over year, having the budget remain constant effectively causes the unit to operate more creatively with less funds available, and risks a concomittant reduction in services.

11. Regardless of staffing and budget constraints, the Office continued to serve in 2016, together with the Adminstrator, as the essential advocates of the ethical values of the organization, seeking to achieve maximum impact through strategic and innovative programmes and initiatives.

III. Mandated activities

12. In 2016, the Ethics Office remained fully engaged in leading the effort to promote and strengthen ethical practices and the ethical culture throughout the organization, meeting or exceeding its objectives under each of its functional areas of responsibility.

A. Standard-setting and policy support

13. During the reporting period, the Ethics Office continued to provide significant assistance in organizational policy development upon the request of management, or through its proactive engagement with relevant business units. In identifying ethics and integrity issues in close collaboration with relevant UNDP units, the Office facilitated the integration of ethics considerations and standards into evolving UNDP policies, guidelines, and operating procedures. However, the Office also provided substantive input that transcended ethics considerations, where and when appropriate.

14. Pursuant to its mandate to advocate for ethics standard-setting, the Ethics Office worked closely with the cross-organizational Working Group on the Prevention of Sexual Exploitation and Abuse (PSEA) to improve and harmonize organizational policies and practices in light of the *Report of an Independent Review on Sexual Exploitation and Abuse by International Peacekeeping Forces in the Central African Republic*[1]. Part or the collaboration included the development of a new PSEA training module for UNDP personnel, and the creation of awareness raising materials.

[1] The Working Group is comprised of members from UNDP, UNFPA, UNOPS, the United Nations Children's Fund (UNICEF), the United Nations High Commissoner for Refugees (UNHCR) and the United Nations Secretariat.

15. In 2016, a Workplace Harassment Working Group - led by the Bureau for Management Support and including the Ethics Office - finalized new procedures to promote greater transparency and accountability in addressing allegations of workplace harassment and abuse of authority, as well as to facilitate a more effective resolution of issues that give rise to such claims. The Working Group was established pursuant to a 2014 Ethics Office management recommendation to the Executive Board.

16. Under the new procedures announced in December 2016, the Office of the Ombudsman for United Nations Funds and Programmes will centrally administer and track individual cases involving harassment and abuse of authority allegations to ensure their effective management and disposition. The Office of the Ombudsman, the Ethics Office, the Office of Audit and Investigations (OAI), and the Office of Human Resources (OHR) will meet quarterly to discuss and address any systemic issues that arise from such allegations, as well as to consider further improvements to UNDP's response to such matters. As per the Ethics Office's noted 2014 management recommendation, the new procedures are ultimately intended to remedy identified shortcomings in existing policies and practices, thereby strengthening UNDP's culture of ethics and integrity. It is important to distinguish, however, that when actual misconduct is identified, OAI will step in and conduct a full investigation.

17. The Ethics Office also contributed to the development of UNDP's 2016 Global Staff Survey (GSS), which measures organizational performance from the perspective of staff. The Ethics Office substantially edited and added ethics-related questions devised to gauge staff perceptions of ethics and integrity within the organization. Data gathered from the 2016 GSS will be used by the Office in its engagement with UNDP bureau and country offices to identify specific areas of ethics concerns, and to develop targeted interventions. Information from the survey will also be incorporated into the development of country-specific ethics training and awareness-raising programmes.

18. In 2014, the previous Associate Administrator limited participation of the independent offices (including the Ethics Office) to quarterly Organizational Performance Group (OPG) meetings, focusing on accountability issues. The Ethics Office previously attended all regular OPG meetings to engage with senior leadership to support ethical-decision making at the highest levels of the organization, keep abreast of all major UNDP initiatives and policies, and to offer value and added insight on issues where the Director of the Ethics Office held relevant private sector expertise. In 2015, the Ethics Office issued a management recommendation in its Annual Report that its exclusion from regular OPG meetings be reconsidered.

19. In 2016, with support from the new Associate Administrator, the Ethics Office Director resumed attendance at any and all OPG meetings where the Director believed he could add value. Through participation in select OPG meetings (and through the submission of written comments) the Ethics Office provided substantive policy input on, *inter alia*, a significant number of matters under OPG review including, but not limited to, items such as: the Anti-Fraud Policy; the Policy and procedures on performance management and development; the Policy on delegation of authority; the UNDP Refreshed Gender Parity Strategy; the revised Policy on Recruitment and Reassignment of Internationally Recruited Staff; the Recruitment and Selection Policy; the Separation from Service – Termination of Appointment Policy; the Draft Risk Assessment Tool for High Net Worth Individuals; the revised guidance note on the participation of UNDP delegates in international conferences; the proposal to increase the maximum earnings limit for retirees; the Terms of Reference for the Disabilities Inclusive Development Evaluation; the proposed Risk Management Framework; the Non-Reimbursable Loan Policy (also as a result of a previous Ethics Office recommendation to management as reflected in prior years' annual reports to the Executive Board); and multiple other human resource and contract/procurement

policies affected by changes related to the Mainstreaming of Fast Track and Delivery Acceleration Package.

20. In accordance with decision 2010/17 of the Executive Board, the Ethics Office continued to provide conflict of interest vetting for candidates recommended for key UNDP oversight positions. During the year, the Ethics Office also briefed new Director-level (and above) staff employed at headquarters, and met with other senior officials as they visited headquarters or while in the field.

B. Training, outreach and awareness-raising

21. Training and awareness-raising are fundamental to the work of the Ethics Office. In addition to expanding ethical awareness and empowering staff to exercise ethical judgement, Ethics Office training emphasizes the pragmatic and 'business value' of ethics, and why acting with ethics and integrity is in the best interest of the organization. Because UNDP operates in high-risk environments around the world, staff adherence to the highest standards of ethical conduct is essential to both protect the integrity of UNDP's programmes, and to maintain the trust of Member States, donors, other stakeholders, and the public that UNDP serves.

22. UNDP's ethical culture is improved by its leadership's visible adherence to ethical values and behaviour. Separate ethical leadership training by the Ethics Office reinforces 'tone at the top' and 'mood in the middle' (mid-level managers who handle day-to-day operations), reminding those with managerial responsibilities they must exhibit role-model behaviour.

Online course and related modules

23. The Ethics Office's training programme includes an on-line ethics course, *Ethics and Integrity at UNDP*, which was first introduced in 2015 in English, French, and Spanish. The course addresses real-world ethical situations faced by staff in their daily work, and is designed to promote ethical decision-making, and a common understanding of applicable standards of conduct. Though initially available to staff on a voluntary basis, upon Ethics Office engagement with senior leadership the course was made mandatory in 2016 for all staff members, with a stipulated end of year completion date. As of 31 December 2016, 3949 staff members had completed the course.

24. Because management recognized the importance of ethics training for all UNDP personnel, it was decided the on-line course would also be made mandatory for service contract holders. Due to certain technical restrictions however, service contract holders will not have to complete the course until 2017. Nonetheless, 2373 service contractors and other non-staff member personnel completed the course in 2016.

25. As previously reported, the Ethics Office (in partnership with OHR's Learning Management Group) introduced (in English, Spanish and French) three supplemental, on-line ethics mini-courses in 2015 on (a) protection against retaliation, (b) the financial disclosure programme, and (c) avoiding conflicts of interest. Completion of these courses is voluntary, and, as of 31 December 2016, 156 individuals had completed the conflict of interest course, 158 had completed the protection against retaliation course, and 153 had completed the financial disclosure programme course.

26. In 2016, the Ethics Office completed its collaboration with the United Nations Volunteers (UNV) to adapt *Ethics and Integrity at UNDP* for the UNV staff population. The knowledge sharing and capacity building that took place across organizations harmonized policies and procedures, and fostered a common understanding of ethical standards and expectations. The UNV-specific ethics training course was launched in August 2016.

Face-to-face workshop and webinars

27. The Ethics Office views its outreach and in-person training initiatives as a crucial means to broaden awareness of its services, enhance staff understanding of ethics considerations and requirements, and to listen directly to the ethics-related concerns of field-based staff. Such sustained staff and management engagement on ethics matters remains a central component in strengthening and consolidating an ethical culture across UNDP.

28. In 2016, the Ethics Office continued its focused delivery of in-person ethics workshops, briefings, and ethical leadership sessions. In order to reach as many individuals as possible, and to most effectively utilise its limited resources, the Office conducted several missions to field locations; a small number of sessions were conducted by a training vendor where it proved cost-effective to do so, or in-language training was required. The Office also held live-via-the-web trainings from headquarters (at times most convenient to the offices in question), so as to avoid costly travel when feasible. Among country offices trained in 2016 were Botswana, Namibia, Zimbabwe, Haiti, Bosnia, Bolivia, Uzbekistan, and the Ukraine. Additionally, the Ethics Office presented sessions at regional cluster meetings held by the Regional Bureau for Arab States, the Regional Bureau for Europe and the CIS, and the Regional Bureau for Africa, as well as at meetings for Human Resources, Finance, and Operations Managers organized by the Regional Bureau for Latin America and the Caribbean, and the Regional Bureau for Asia and the Pacific. The Ethics Office also conducted two separate workshops for incoming Junior Professional Officers, a briefing for the Independent Evaluations Advisory Panel, and for a visiting delegation from the UK's Department for International Development (DFID).

29. As a result of the Office's ethics presentations, including provision of training via Skype at all hours to best serve target audiences in their specific time zones, staff and senior leadership in country offices and regional bureaus regulary follow-uped with the Ethics Office for additional advice and guidance.

30. To ensure that ethics training remains responsive, relevant, and dynamic, during 2016 the Ethics Office continued to refine and tailor its workshop and leadership training decks to the specific needs of each office by focusing, *inter alia*, on country specific political contexts, and country-level Global Staff Survey results. This approach led to increased engagement among audiences and leadership teams who better appreciated how ethics applies to their work, and ways they can improve and strengthen the ethical culture in their office. Following outreach missions, the Ethics Office also assisted country offices in developing action plans to improve ethical practices at their locations based on the information gathered from the training and consultation sessions.

31. In total, approximately 1,250 staff members and other personnel participated in face-to-face ethics workshops, group briefings, panel discussions, and live/web-based training sessions in 2016. This is consistent with the number of individuals who received in-person ethics training in 2015.

Senior management briefings

32. Because the conduct and decisions of senior officials have a direct and lasting impact on UNDP's culture of ethics, integrity, and accountability, in 2016 the Ethics Office continued to proactively engage UNDP leadership to ensure that ethics considerations remain central to the management of the organization. In addition to being regularly approached by senior leadership for confidential and pragmatic ethics advice on sensitive business matters, the Ethics Office regularly participated in training sessions for new Executive Board members, new resident coordinators/resident representatives, and new country office directors and their

deputies. The Office also continued to provide individual ethics inductions and briefings for newly appointed executives at the D1 level and above.

33. While again noting that an ethical culture is significantly advanced by senior leadership being seen to adhere to ethical values and conduct in their daily work, the Ethics Office also maintained its focus on the leadership responsibilities of middle management. Whether it is overseeing the day-to-day operations of the organization or engaging with staff at the gound level, individuals holding middle management positions are particularly situated to serve as models of ethical performance and behaviour for UNDP's global workforce.

34. In delivering its ethics leadership training, and to achieve maximum impact, in 2016 the Ethics Office continued to emphasize the pragmatic, business value of ethics, and why ethical behavior and ethical decision-making makes good business sense. Our continued participation in, and visibility at, the leadership Regional Cluster meetings has proven invaluable in reinforcing the critical importance and pragmatic value of ethics in all aspects of UNDP operations. As the organization's reputation and ability to effectively engage with stakeholders and donors ultimately depends upon the actions and performance of its personnel, it is imperative that the conduct and decision-making of staff and management alike is guided by the highest standards of ethics and integrity.

Awareness-raising and communication activities

35. An essential component of the Ethics Office's training, outreach, and awareness-raising mandate is the production and distribution of ethics information and guidance materials. To strengthen organization-wide awareness of ethical obligations and applicable standards of conducts, the Office has leveraged new communication tools and prioritised the development of accessible resource materials.

36. The Ethics Office utilises multiple channels to deliver ethics information and promote ethics education, including the use of social media and global staff broadcasts. In 2016, the Ethics Office creatively exploited social media to communicate across the organization that ethics constitutes an integral part of UNDP business practices and operations. To increase ethics awareness and discussions within UNDP, the Ethics Office expanded its use of Twitter and Yammer (an internal UNDP social network). The Office specifically used these platforms to circulate ethics articles, surveys, and opinion pieces so as to reinforce amongst staff and management the importance of keeping ethics considerations at the heart of their work, and highlight the practical value and application of ethics in day-to-day interactions. Within Yammer, the Office also created an 'Ethics' discussion group where individuals can pose questions to the Ethics Office, or seek guidance on ethics issues affecting the organization. This initiative has been positively received, and serves as another essential tool to strengthen the ethical culture within UNDP. Since it was launched the Director's Twitter account has posted 224 'tweets' and has garnered 160 followers. Yammer does not offer tracking, but the number of posts and followers is roughly equivalent to those in Twitter.

37. In addition to regularly distributing ethics articles and information via social media, the Ethics Office continued to send e-mails and bulletins to UNDP personnel and leadership on ethics related issues. Of note, in August 2016 the Office issued a detailed information bulletin on Political Activities, with a particular focus on the need for all personnel to refrain from involvement in any activities that could comprise their obligations of integrity, objectivity, independence, and impartiality. The bulletin, published in English, French, and Spanish, resulted in a significant number of inquiries from individuals across UNDP, particularly with regard to a number of contentious political events that occurred in 2016. The consisent, focused and proactive engagement of the Office with all UNDP personnel on such matters demonstrates the Office's importance in supporting ethical conduct, and protecting the

integrity and reputation of the organization. Such broadcasts continue to drive requests for the Office to directly address region, country and business unit teams.

38. During the reporting period, the Ethics Office completed and circulated for internal review UNDP's very first 'Code of Ethics'. Given there is currently no existing UNDP document that references all of the policies and procedures impacting upon on UNDP's ethical culture, the Code of Ethics consolidates relevant ethical standards and expectations for all UNDP personnel. Designed as an interactive, on-line document, the Code is highly engaging with eye-catching graphics and comprehensive hyperlinks to ethics-related resources, policies, rules, regulations, and trainings. Upon its formal adoption by the OPG, it is anticipated that the Code will be released by mid-2017. The Code will be officially launched in conjunction with a robust awareness campaign, and will subsequently serve as an essential component of Ethics Office trainings, briefings, and messaging.

39. In 2016, the Office additionally drafted a new, on-line publication entitled 'Where To Go When'. This document will serve as a comprehensive reference guide outlining the various support offices and services available to UNDP personnel. For each identified resource, including the Ethics Office, the Office of the Ombudsman, the Office of Audit and Investigations, the Office of Staff Legal Assistance, and others, the guide provides information on respective mandates, policy documents, and contact details. The consolidation of resource information in a single publication is intended to enhance both organizational efficiency and accountability. As with the Code of Ethics, the reference guide is expected to be released by mid-2017.

40. The Ethics Office's new, on-line information brochures on (a) avoiding conflicts of interest; (b) protection against retaliation; (c) the financial disclosure programme, and; (d) an overview of the Ethics Office, were also broadly released in 2016. The Code, reference guide, and brochures all break from the UN practice of expensive, printed documents, and instead serve as user-friendly, interactive, on-line materials, as per best practice in the ethics field in the private sector.

41. In addition to regularly updating its intranet site to provide staff and managers with easy access to ethics policy documents and guidance materials, the Ethics Office collaborated with UNDP's Bureau of External Relations and Advocacy, and the Office of Information Management and Technology, to develop an ethics web page on UNDP's website. The launch of a publicly accessible page, in early 2017, will enhance UNDP's reputation as one of the most transparent agencies in the UN family, and remedy an existing gap in its ethics programme.

42. In 2016, the Ethics Office also redesigned several small promotional items intended for distribution at its ethics workshops and trainings. This included smaller and more discreet 'Ethics Champion' lapel pins, and note pads with ethics specific messaging. These materials reinforce ethics lessons, and remind all personnel to keep ethics considerations at the forefront of their daily work.

Other awareness-raising activities and briefings

43. In 2016, the Ethics Office continued to deliver third party ethics presentations to UNDP government partners. A headquarters-level briefing was given to a Government of Egypt anti-corruption delegation on the role of ethics programmes in preventing corruption. The Office further presented at a civil service code of conduct workshop in Tashkent, Uzbekistan (organized by the General Prosecutor's Office of the Republic of Uzbekistan, UNDP, and the Organization for Security and Cooperation in Europe). The involvement of the Ethics Office in such activities reinforces UNDP's position as a leader in organizational ethics, and supports the organization's engagement in institutional capacity building and good governance initiatives.

C. Confidential advice and guidance

44. UNDP's ethical culture ultimately drives how individuals behave, how decisions are made, and how the organization is perceived by its personnel, suppliers, donors, Member States, and the public that it serves. From the perspective of its business operations and its public reputation, it is therefore imperative UNDP demonstrates a positive, ethical culture committed to fairness, accountability, and transparency, and holds itself and its personnel to the highest standards of integrity.

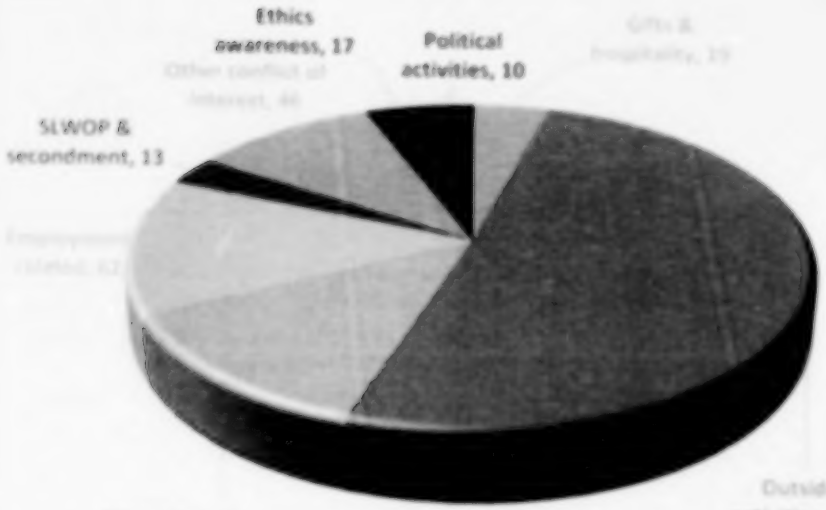
45. The provision of confidential ethics advice and guidance is a critical function of the Ethics Office. In providing impartial and pragmatic feedback to staff members, contractors, and management on the appropriateness of certain actions, and by clarifying institutional expectations pursuant to applicable rules and regulations, the Ethics Office enables personnel to make better decisions that advance the values, principles, and interests of UNDP. The provision of ethics advice prepares personnel to better identify and manage potential conflicts of interest and resolve ethical dilemmas, which strengthens the ethical culture of UNDP and the need to avoid *even the appearance* of impropriety. Access to the confidential services of the Office further provides UNDP personnel with a safe haven within which they can raise concerns, and also to alert the Ethics Office to situations that may require remedial action in order to mitigate any harm to the individual or the organization. In assisting personnel to navigate complex workplace issues and to take appropriate courses of action, the Office's advisory function serves to protect the integrity and credibility of UNDP's operations and, by extension, its public reputation.

46. Since 2013, the number of UNDP personnel seeking ethics advice and guidance from the Ethics Office has steadily increased (see Figure 2 below). In 2016, the Ethics Office fielded 836 requests for services, of which 454 were for ethics advice. This represents the highest number of requests ever received in the history of the Ethics Office, and reflects a continuing upward trend directly attributable to the Office's proactive efforts to enhance and expand its training, outreach, and awareness-raising initiatives, and ethics messaging (by way of comparison, in 2015 the Ethics Office received 643 requests for services, of which 431 were for ethics advice). The year-by-year growth in demand for ethics advice and guidance reflects the value staff and management attach to having a confidential mechanism where they can address their ethics-related concerns, as well as the quality of the advice provided. Recognizing the practical value and trustworthiness of the Office's advice, personnel regularly approach the Office before actions are taken in order to avoid unintended or unanticipated consequences. Pursuant to the trust placed in its services, the Office continues to maintain and cultivate interaction with personnel so as to dispense effective, pragmatic advice, and advance the interests and objectives of UNDP.

Figure 2. Ethics advice as a component of total services, 2013-2016

47. Fifty-eight per cent of all requests for Ethics Office services during the reporting period pertained to ethics advice and guidance. As shown in Figure 3 below, relevant advice matters included Office reviews of outside activity requests, and the provision of advice and guidance on, *inter alia*: the acceptance of gifts, awards, and hospitality; actual or potential conflicts of interest; political activities; protection of UNDP information and assets; employment-related concerns; and misconduct reporting procedures. When advising on such matters, the Ethics Office additionally plays a critical risk prevention function within the organization.

Figure 3. Ethics advice breakdown, 2016



D. Financial disclosure programme for the 2015 transaction year (filed in 2016)

48. The Ethics Office administers UNDP's annual financial disclosure programme, reviews disclosed information, verifies information provided, and dispenses advice and guidance to manage and mitigate any disclosed or detected conflicts of interest. During 2015, the Office introduced an on-line financial disclosure programme training module serving focal points and heads of business units in their efforts to identify and register individuals who meet the criteria for filing. To date, 153 individuals have completed this training, thereby helping to reduce the number of inquiries and interactions directed to the Ethics Office regarding the proper identification of filers and the operation of the programme.

49. The financial disclosure programme is designed to assist the organization in detecting actual and potential conflicts of interest between a staff member's (or service contractor's) private interests and their official duties and obligations. The programme's primary purposes are to ensure that the independence and impartiality of UNDP personnel are preserved in official decision-making, and promote transparency and public trust in UNDP. Staff regulations require all staff at the D1 level and above, plus other designated staff members to file a financial disclosure statement concerning themselves, their spouse, and their dependent children upon appointment and annually thereafter. Filers may also be required to participate in a verification process to authenticate the accuracy and completeness of the information submitted.

50. In 2016, the Ethics Office rolled out its tenth annual financial disclosure exercise, covering the 2015 transaction year but because of an upgrade to the programme's electronic filing platform (to enhance confidentiality and information security), the exercise was launched in May 2016. In 2016, 1,293 filers participated in the programme (down from 1,375 in 2015). The Office finalized all reviews and provided required advice and guidance by August 2016, thereby completing the process in

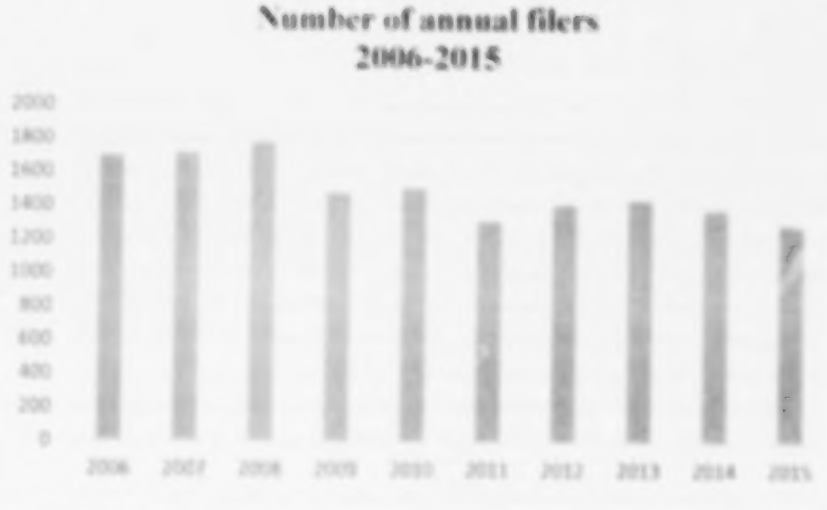
record time. As in previous filing cycles, the programme achieved a 100 per cent compliance rate.

51. Subsequent to the inclusion of service contract holders in the programme in 2015, 54 service contractors who met filing criteria participated in the 2016 filing exercise. Although this number is relatively low (given service contractors are typically not placed in positions with filing obligations such as procurement), their inclusion is an important advancement in ensuring the complete and organization-wide coverage of the financial disclosure programme.

52. In 2016, the Office again conducted real-time reviews of financial disclosure statements upon submission. This established practice of conducting reviews at the time of filing has (a) greatly enhanced timely and efficient communication with filers; (b) enabled the Ethics Office staff to promptly request additional information or clarifications; and (c) facilitated the provision of immediate guidance to filers on required actions to mitigate potential conflicts of interest.

53. Figure 4 below depicts the evolution in the number of financial disclosure programme filers since the programme's inception in 2006. After a peak year in 2008 - and following a revision by the Ethics Office of the methodology for identifying individuals who are required to file - the number of filers has leveled out and remained in the range of 1,300 to 1,400 filers per year.

Figure 4. Number of financial disclosure policy annual filers from 2006 to 2015



54. Figures 5 and 6 below show the percentage of financial disclosure programme filers by rank and function for the 2015 transaction year. As with prior filing cycles, middle management and those with procurement functions constitute the largest percentage of filers.

Figure 5. UNDP financial disclosure policy filers by rank, 2015

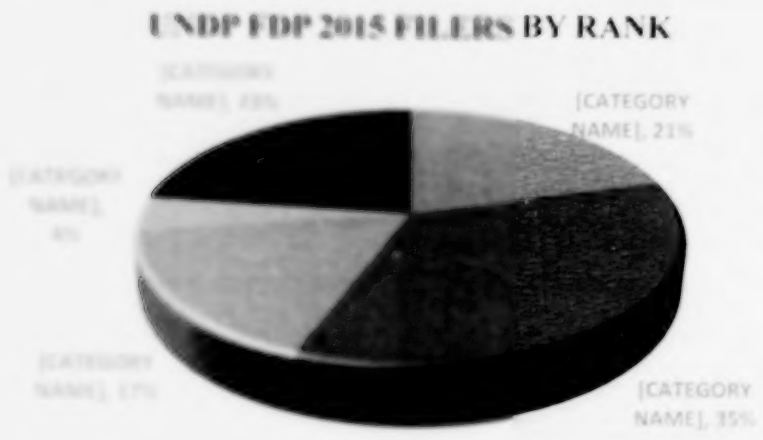
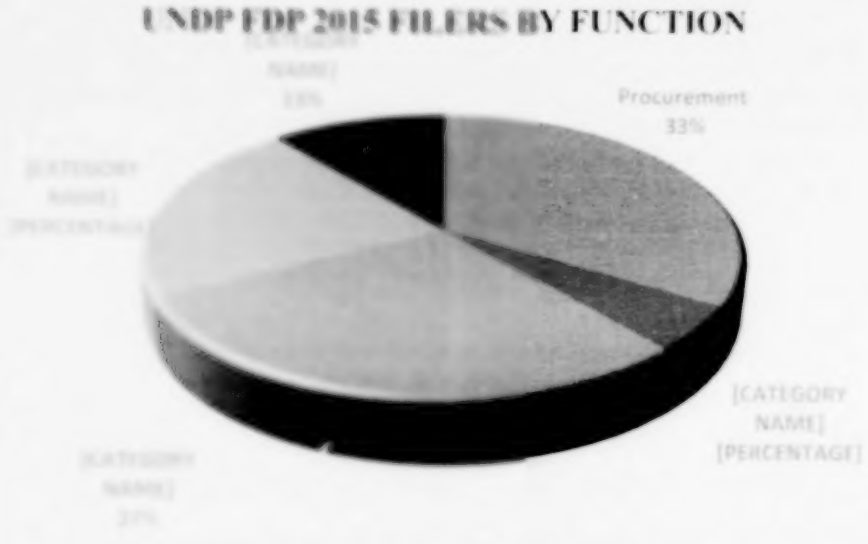


Figure 6. UNDP financial disclosure policy filers by function, 2015



Review of data and provision of advice

55. The review of financial disclosure programme statements followed a three step approach. Individual statements were first vetted to ensure complete information was provided. In the case of incomplete or unclear information, the filer was contacted to provide additional information or clarification. Secondly, disclosures were compared against a restricted list of UNDP vendors and investment funds. The third step involved an examination of declared outside interests and activities against relevant

prohibitions or restrictions contained in United Nations staff regulations and rules. Taking into consideration the work location and official functions of the relevant filer, all reviews were conducted for the purpose of identifying actual and potential conflicts of interest and, where conflicts were detected, providing remedial or proactive advice.

56. In 2016, the Ethics Office provided advice to eight (8) filers in cases where an apparent conflict of interest was detected. The majority of these cases involved filers engaged in unapproved outside activities. In these cases, each filer was advised of their obligation to seek official approval from within UNDP. Once the filer did so, the Ethics Office vetted each outside activity request and made a recommendation to management regarding whether the request should or should not be approved.

57. In forty-eight (48) cases, proactive advice and guidance was provided on managing or mitigating potential conflicts of interest so that actual conflicts of interest could be avoided. A significant number of these cases involved UNDP staff members with spouses employed at governmental agencies, non-governmental organizations, or UNDP vendors/suppliers at the same work location.

Verification of financial disclosure programme statements

58. While the Ethics Office dispensed with the financial disclosure verification exercise in 2015 as a consequence of staffing shortages at that time, verification was reinstituted in 2016 with the arrival of the new Ethics Adviser. As with prior exercises, the Office randomly selected a small number of filers for verification by using a stratified sample representative of the total filing population (taking into consideration location, grade, and gender).

59. Since verification participants are required to submit third party documentation for each item disclosed in their financial disclosure statements, the Ethics Office engaged in robust follow-up with participants to ensure the completeness of provided information. The exercise was initiated in August 2016 and completed in October 2016 upon the receipt of satisfactory verification documentation from all selected participants.

Secretary-General's voluntary public disclosure initiative

60. The United Nations Ethics Office administers the Secretary-General's voluntary public disclosure initiative for senior officials at the assistant secretary-general level and above. In 2016, the UNDP Administrator, Associate Administrator, and several members of UNDP's senior management team took part in the exercise.

E. Protection of staff against retaliation for reporting misconduct and/or for cooperating with duly authorized audits or investigations

61. In accordance with the Secretary-General's bulletin ST/SGB/2007/11, *United Nations System-Wide Application of Ethics: Separately Administered Organs and Programmes*, the Ethics Office administers UNDP's policy for protection against retaliation. The policy is both a whistleblower protection programme and a risk management mechanism that encourages individuals to report misconduct and/or cooperate with duly authorized audits and investigations, without fear of reprisal. In promoting, and providing protection for, such reporting, the policy enhances UNDP's ability to address alleged wrongdoing at an early stage, thereby strengthening institutional accountability and public trust. Since early 2013, the policy extends protection beyond staff members to include contractors, United Nations Volunteers serving in UNDP, and interns. This comprehensive coverage is in accordance with

whistleblower protection best practices, and is a necessary condition of a vigorous and effective protection against retaliation programme.

62. Pursuant to UNDP's policy for protection against retaliation, the Ethics Office receives complaints of retaliation and conducts preliminary assessments to determine if (a) a complainant engaged in an activity protected by the policy, (b) the action alleged to be retaliatory did occur, and (c) there is a *prima facie* case that the protected activity was a contributing factor in causing the alleged retaliation. If the office determines that a *prima facie* case of retaliation has been established, the matter is referred to OAI for investigation. The Ethics Office makes a final retaliation determination subsequent to its independent review of the OAI investigation report and supporting evidence.

63. During the reporting period, the Ethics Office received 19 inquiries regarding the policy for protection against retaliation. While this equals the number of inquiries received in 2015, there has been a marked increase in such inquires when compared to earlier years (e.g., 22 inquiries were received between 2011 and 2013). As with the increase in all received Ethics Office service requests, the noted increase in protection against retaliation inquires is attributable to the Office's considerable efforts to expand outreach activities and raise awareness amongst all UNDP personnel of applicable ethics standards and policies.

64. Of the 19 inquiries received, 17 involved requests for policy advice and information, including requests for clarifications on policy content and applicability. UNDP personnel that raised workplace concerns not covered by the policy were advised of other available resources and referred to appropriate offices, including the Office of the Ombudsman, OHR, and the Office of Staff Legal Assistance (OSLA). Having provided detailed advice for each of these inquiries, the Office maintained an 'open door policy' to those individuals in the event they subsequently wished to provide case updates or seek additional guidance. The Office furthermore provided advisory support to other UN system ethics offices on various protection against retaliation matters.

65. Of the 19 inquiries, two were formal complaints of retaliation, where complainants alleged they had been subjected to retaliatory action as a result of engaging in a protected activity. This is a reduction from 2015, when five complaints of retaliation were received. The drop in complaint numbers may be due to collaborative efforts undertaken in 2016 by the Ethics Office, the Office of the Ombudsman, OHR, and OAI to intervene and prevent a number of volatile workplace situations from deteriorating into potential retaliation matters.

66. Concerning the two retaliation complaints received in 2016, the complainant in one of these cases subsequently sought resolution of his matter via the confidential services of the Office of the Ombudsman. Noting that UNDP encourages the informal resolution of conflicts, the policy for protection against retaliation provides complainants the option of pursing informal resolution through the Office of the Ombudsman as an alternative to a formal complaint and investigation process.

67. For the other complaint received, upon preliminary assessment the Ethics Office determined a *prima facie* case of retaliation existed, and referred the matter to OAI for investigation. The matter was somewhat complicated because it involved an individual on a UNDP contract assigned to work for United Nations Department of Safety and Security (UNDSS). The Ethics Office recommended (and management instituted) interim protective measures to ensure the complainant did not suffer additional retaliation while the matter was under investigation. Protective measures included prevention of transfer, and inclusion in training programmes. Based on

subsequent review of the completed OAI investigation report and exhibits, the Ethics Office determined that the UNDSS Administration had failed to prove by clear and convincing evidence that it would have taken the same, alleged retaliatory action against the complainant absent the complainant's protected activity. On these grounds, the Ethics Office determined that retaliation had been established and issued permanent corrective measure recommendations to the complainant's management.

68. At its annual meeting in 2016, the Executive Board requested that, in the future, management advise the Board of remedies provided to complainants, as well as discipline accorded to retaliators. However in the instant matter discussions between the UNDP Legal Office and UNDSS management have not resulted in a satisfactory resolution of the matter. Specifically, in January 2017, UNDSS notified the UNDP Legal Office of its decision not to implement the recommendation of the Ethics Office that the complainant be transferred to his former position. Subsequent to this notification, the Ethics Office advised the complainant of recourse mechanisms available under the United Nations internal justice system to challenge the UNDSS decision. Further, UNDP has not been advised as to whether or to what extent the retaliator has been subject to discipline.

69. The existence of a work environment where all personnel are willing to speak out against wrongdoing without fear of being subjected to adverse action is a central component of a robust ethical culture. The Ethics Office continues to build awareness around UNDP's policy for protection against retaliation through in-person trainings, on-line ethics courses, and interactions with UNDP business units and senior management.

IV. The Ethics Panel of the United Nations and the Ethics Network of Multilateral Organizations

70. In 2016, the Office continued to participate in monthly meetings of the Ethics Panel of the United Nations (EPUN), which is comprised of the heads of ethics offices in United Nations funds, programmes and specialized agencies, and chaired by the Director of the United Nations Ethics Office. In addition to serving as as Vice-Chair of EPUN through September 2016 and supporting EPUN's mandate to promote harmonized ethics standards and policies, the Director of the Ethics Office remained an experienced and trusted source of ethics expertise for EPUN members. With a reputation for introducing innovative and engaging ethics initiatives within UNDP, the Director regularly shared with EPUN awareness-raising and programmatic materials developed by the Ethics Office, as well as topical ethics information from private and public sector sources.

71. In July 2016, the Director participated in the annual meeting of the Ethics Network of Multilateral Organizations (ENMO), which is composed of ethics officers from United Nations system entities, affiliated international organizations, and international financial institutions. The Director was again requested to address the meeting and co-chaired a panel on conflicts of interest prevention through interest disclosure and pre-employment vetting.

72. As a respected public and private sector expert on ethics and integrity matters, and in light of the innovative and leading work and accomplishments of the UNDP Ethics Office, ENMO members further elected the Director as its Chair for 2016/17 through to its next annual meeting in July 2017. In addition to being involved in organizing ENMO's 2017 annual meeting, this role will involve increased requests from ENMO members to the Ethics Office for ethics expertise, advice, and guidance.

V. Recommendations to management to strengthen the UNDP culture of integrity and compliance

73. In its decision 2011/24, the Executive Board called on the Ethics Office to issue recommendations to management on how to strengthen the culture of ethics, integrity and accountability in UNDP. Because of the (a) successful implementation in 2016 of all prior open Ethics Office management recommendations, including the establishment of new procedures to enhance the organization's response to workplace harassment and abuse of authority allegations, and the reinstatement of the Office at all regular OPG meetings, (b) achievements of the Office in 2016 in promoting and strengthening UNDP's culture of ethics, integrity, and accountability, and (c) overall improvement in responses to ethics-related questions in the latest UNDP General Staff Survey, the Ethics Office does not issue any specific management recommendations for the 2016 reporting period.

VI. Conclusion

74. Since 2012, the Ethics Office has been progressively modifying and improving its ethics progamme in order to meet or exceed the standards and best practices found in public and private sector organizations. In developing and introducing mandatory refresher on-line ethics courses; print-on-demand resources; targeted (rather than generic) in-person trainings to address country and regional risks and needs; real-time Skype briefings scheduled for country office work hours; and robust and dynamic communications outreach via social media, the Ethics Office significantly enhanced its proactive engagement with all UNDP personnel. In fortifying its working relations with, and providing comprehensive ethics service to, UNDP business units at the country office, regional bureau, and headquarters levels, the Ethics Office developed a reputation for dispensing informed and pragmatic advice that supports and strengthens the organization's ethical culture.

75. Despite continuing budgetary and staffing constraints, 2016 saw the highest number of service requests received and handled by the Ethics Office in the history of its operations. The number of these requests demonstrates the significant trust placed in the Office as a place to receive confidential ethics advice and guidance, as well as other services, and attests to the Office's critical role in consolidating and strengthening UNDP's culture of integrity and accountability. Through its expansive and innovative outreach activities, and its engagement with staff and management at all levels, the Office continues to ensure that ethics remains a guiding force behind the business operations of UNDP. Resolute in its efforts to assist the organization in preventing, mitigating, and managing ethical and reputational risk, the Office remains an essential and independent advocate of the organization's ethical values and principles.